United Nations A/59/318/Add.1

General Assembly

Distr.: General
3 September 2004

Original: English

Fifty-ninth session
Item 108 of the provisional agenda*
Financial reports and audited financial statements, and reports of the Board of Auditors

First report on the implementation of the recommendations of the Board of Auditors on the financial statements of the United Nations funds and programmes for the financial period ended 31 December 2003

Report of the Secretary-General**

Addendum

Summary

The report contains responses from 12 United Nations funds and programmes and from the International Criminal Tribunals for Rwanda and the Former Yugoslavia. It provides information further to the comments already submitted to the Board of Auditors, which, in some cases, were included in the Board's final report to the executive heads of the respective funds and programmes.

This report is submitted to the General Assembly in accordance with the provisions of paragraph 7 of resolution 48/216 B of 2 December 1993, whereby the General Assembly requested the executive heads of the United Nations funds and programmes, at the same time as the recommendations of the Board of Auditors were submitted to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions, to provide their responses to the Assembly, and to indicate measures that would be taken to implement those recommendations, with appropriate timetables.

* A/59/150.

** The present report is being submitted after the deadline due to the need for extensive consultation with the various funds and programmes.

04-49948 (E) 151004

The Secretary-General has the honour to transmit to the General Assembly the responses of the executive heads of the organizations and programmes, namely the International Trade Centre UNCTAD/WTO, the United Nations University, the United Nations Development Programme, the United Nations Children's Fund, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Institute for Training and Research, the voluntary funds administered by the Office of the United Nations High Commissioner for Refugees, the Fund of the United Nations Environment Programme, the United Nations Population Fund, the United Nations Human Settlements Programme (UN-Habitat), the Fund of the International Drug Control Programme (UNDCP), the United Nations Office for Project Services, the International Criminal Tribunal for Rwanda and the International Criminal Tribunal for the Former Yugoslavia. Unless otherwise stated, these responses relate to the recommendations of the Board of Auditors in its reports for the period ended 31 December 2003.

Contents

		Paragraphs	*Page*
I.	International Trade Centre UNCTAD/WTO	1–20	3
II.	United Nations University	21–48	4
III.	United Nations Development Programme	49–207	6
IV.	United Nations Children's Fund	208–325	20
V.	United Nations Relief and Works Agency for Palestine Refugees in the Near East	326–388	31
VI.	United Nations Institute for Training and Research	389–419	37
VII.	Voluntary funds administered by the United Nations High Commissioner for Refugees	420–494	40
VIII.	Fund of the United Nations Environment Programme	495–508	49
IX.	United Nations Population Fund	509–620	51
X.	United Nations Human Settlements Programme	621–647	60
XI.	Fund of the United Nations International Drug Control Programme	648–683	63
XII.	United Nations Office for Project Services	684–764	68
XIII.	International Criminal Tribunal for Rwanda	765–815	76
XIV.	International Tribunal for the Former Yugoslavia	816–838	82
	Notes		85

I. International Trade Centre UNCTAD/WTO

1. The actions taken or to be taken to implement the recommendations of the Board of Auditors in its report on the accounts of the International Trade Centre/UNCTAD/WTO (ITC) for the biennium ended 31 December 2003[1] are set out below. The Director of Programme Support is responsible for implementing the recommendations of the Board unless otherwise stated.

2. **In paragraphs 13 (a) and 22 of its report**, the Board recommended that ITC should disclose in a note to its financial statements the impact of currency exchange rate fluctuations on the reported amount of assessed contributions, and ITC agreed with that recommendation.

3. ITC is in consultation with the United Nations Controller regarding the modalities for such a presentation, with a view to its inclusion in the next financial statements.

4. **In paragraphs 13 (b) and 32**, the Board recommended that ITC should address, in conjunction with the United Nations Secretariat and with proper funding, the issue of unfunded liabilities for end-of-service and post-retirement benefits.

5. ITC is monitoring the decisions of the United Nations General Assembly on the proposed course of action by the United Nations Controller and the related subsequent submission of budgetary documents to the governing bodies of the United Nations and the World Trade Organization (WTO).

6. **In paragraphs 43**, the Board recommended that ITC should disclose items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues.

7. ITC is in consultation with the United Nations Secretariat and the Secretariat of the United Nations System Chief Executives Board for Coordination (CEB) regarding the possible inclusion of such information in the 2004/05 financial statements in accordance with the General Assembly's decision taken in resolution 57/278.

8. **In paragraph 54**, the Board recommended that ITC should maintain complete supporting documentation on grant payments.

9. ITC will review its guidelines for grants and prepare briefing sessions for managing officers by December 2004.

10. **In paragraphs 13 (c) and 60**, the Board recommended that ITC should review and develop the completeness of its information and communication technology (ICT) strategy documents in a cost-effective manner.

11. The ITC will update and consolidate existing documentation based on the United Nations Secretariat ICT strategy, which will be used as a baseline to the extent it applies to ITC.

12. **In paragraphs 12 (d) and 65**, the Board recommended that ITC should adopt with other United Nations organizations a common methodology for determining the total cost of ownership of ICT.

13. ITC will monitor developments in the ICT network and participate, to the extent possible, in the deliberations on and implementation of best practices.

14. **In paragraph 67**, the Board recommended that ITC should subject all significant ICT projects to a post-implementation benefit review.

15. ITC notes the Board's recommendation. Major ICT projects will be defined and appropriate methodologies will be adopted for post-implementation benefit review.

16. **In paragraph 69**, the Board recommended that ITC should join other United Nations organizations in instituting project peer reviews for significant projects, with a view to limiting in the long term the cost of the multiplicity of solutions answering to similar strategies and needs.

17. **In paragraph 72**, the Board recommended that ITC should establish and maintain standards and operational practices in line with best practices, in common with other United Nations organizations, with a view to reducing risks and costs, in particular for significant projects.

18. ITC is engaged in consultation with CEB, the ICT network and the Information Technology Services Division, United Nations Headquarters, to determine the feasibility of implementing the last two recommendations.

19. **In paragraphs 13 (e) and 78**, the Board recommended that ITC should develop a plan against the risk of internal corruption and fraud.

20. ITC will consult with United Nations Headquarters to acquaint itself with system-wide strategies and draft relevant regulations beyond those procedures and rules that already exist for ensuring that there are adequate internal controls to minimize the risk of fraud and corruption.

II. United Nations University

21. The actions taken or to be taken to implement the recommendations of the Board of Auditors contained in its report on the accounts of the United Nations University (UNU) for the biennium ended 31 December 2003[2] are set out below. In all cases the Senior Officer in the Office of the Rector or the Director of Administration and/or the Chief of Finance are responsible for the implementation of the recommendations. The UNU has taken special note of the recommendations contained in the following paragraphs of the Board: 12 (a), 12 (d), 49, 53, 72, 76, 78, 85, 89, 97 and 104 and its Administration will ensure that the Boards recommendations are implemented during the 2004-2005 biennium.

22. **In paragraphs 12 (b) and 26 of its report**, the Board recommended that UNU should periodically review the unliquidated obligations and cancel invalid obligations; (ii) ensure that all obligations are adequately supported; and (iii) reconcile financial records in a timely manner.

23. UNU has begun undertaking periodical reviews of all unliquidated obligations based on the feedback received from the relevant programme units on the status of obligations.

24. **In paragraph 30**, the Board recommended that UNU should complete its reconciliation of the deferred charges and accordingly record expenditures in the

appropriate financial periods to ensure that expenditures classified as deferred charges pertain only to future financial periods.

25. The difference between UNU and United Nations Headquarters expenditures has been reduced from $156,537 to $37,139. Continuous efforts are being taken to complete the reconciliation.

26. **In paragraphs 12 (c) and 34**, the Board recommended that UNU should review and consider enhancing the Financial, Budgetary and Personnel Management System to make it consistent with the financial recording and reporting requirements; (ii) minimize manual processes in the preparation of financial statements; and (iii) ensure that adjustments made as part of the preparation of the financial statements are approved and supported by an adequate audit trail.

27. UNU will set up a task force to evaluate the Financial, Budgetary and Personnel Management System for enhancements and improvements, while keeping in view the budgetary constraints within the budget biennium 2004-2005 for any major improvements that might incur additional costs that were not budgeted for.

28. **In paragraphs 12 (e) and 42**, the Board recommended and UNU agreed that UNU should address the inaccuracies in accounting for non-expendable property to provide complete and accurate disclosures of the value of non-expendable property as at the end of the financial period.

29. UNU will continue to work closely with the auditors in order to identify specific items acquired and disposed of.

30. **In paragraph 44**, the Board recommended and UNU agreed that it should take appropriate action to determine the validity and whereabouts of the deposits and trace the amount refunded by the supplier.

31. UNU will review its records to trace the deposits refunded by the supplier.

32. **In paragraph 46**, the Board recommended and UNU agreed that it should review the validity of other accounts payable to accurately reflect balances.

33. The discrepancy between UNU and United Nations Headquarters billing has been reduced from $81,495 to $37,139. Continuing efforts are being made to complete the reconciliation.

34. **In paragraph 51**, the Board reiterated its recommendation that UNU should enhance the Financial, Budgetary and Personnel Management System by introducing a fund-sufficiency checking functionality to ensure that obligations are kept within the allotment.

35. See the response contained in paragraph 27 above to the recommendation contained in paragraph 12 (c) of the Board of Auditors' report.

36. **In paragraphs 12 (f) and 56**, the Board recommended that UNU should review the funding mechanism for end-of-service and post-retirement benefits liabilities.

37. UNU will undertake a study to determine whether it would be appropriate to include this as a note to the accounts or to make provisions.

38. **In paragraphs 12 (g) and 65**, the Board recommended that UNU should identify measurable/quantifiable targets, accomplishments and performance

indicators to improve the performance measurement process, reflect the real performance of projects and programmes and be able to link the physical accomplishments with financial expenditures.

39. The nature of the activities that UNU is engaged in warrants a dialogue and discussion on indicators that meet the legitimate demands and needs of the University. Advice has been requested from the Panel of External Auditors, the United Nations Board of Auditors and the Office of Internal Oversight Services on this issue.

40. **In paragraph 69**, the Board recommended that UNU should reconcile variances between the programme unit records and the reports generated by the Financial, Budgetary and Personnel Management System to ensure accurate reporting on programmes.

41. The Programme Unit will verify expenditure reports with the Financial, Budgetary and Personnel Management System.

42. **In paragraphs 12 (h) and 82**, the Board recommended that UNU should develop a long-term ICT plan on which short-term ICT requirements could be based.

43. A long-term ICT plan is currently under preparation.

44. **In paragraph 93**, the Board recommended and UNU agreed with the Board's recommendation that it develop policies and procedures in respect of operational safeguards in the ICT environment.

45. **In paragraph 101**, the Board recommended that UNU should (i) enforce compliance with the directives on recovery of travel advances of staff members and (ii) formulate a policy governing the granting and settlement of travel advances of non-staff members.

46. With regard to the recommendations contained in paragraphs 93 and 101, UNU has initiated action to formulate policy based on best practices and to develop appropriate policies and procedures.

47. **In paragraphs 12 (i) and 106**, the Board recommended that UNU should finalize and implement a staff training policy in line with its needs assessment and resources and consistent with the United Nations professional development policy.

48. The UNU personnel policy approved by the UNU Council on 5 December 2003 spells out the commitment to personnel development. The current biennium budget was approved with a specific budget line covering training. Draft guidelines are under review.

III. United Nations Development Programme

49. The actions taken or to be taken to implement the recommendations of the Board of Auditors in its report on the accounts of the United Nations Development Programme (UNDP) for the biennium ended 31 December 2003[3] are set out below.

50. **In paragraph 26**, UNDP agreed with the Board's reiterated recommendation to closely monitor the financial position of the United Nations Capital Development Fund (UNCDF) to ensure that it maintains a healthy fund balance; and with its

further recommendation that UNDP evaluate project implementation with a view to ensuring that programming objectives can be efficiently achieved with limited funding.

51. UNCDF has taken a number of measures to ensure the financial integrity of the fund by prudently reducing programming levels with outstanding commitments against core resources, bringing the outstanding programme commitments against core resources to less than half of the level of the allowed outstanding commitments ceiling using the partial funding formula.

52. **In paragraphs 12 (a) and 33**, the Board recommended that UNDP should complete the adjustment process of all non-expendable equipment records at country offices to bring the value in line with the revised non-expendable policy.

53. UNDP has taken action to ensure that country offices and other offices away from Headquarters amend their inventory records to reflect only items with values of $1,000 or more and to document the adjustments made, which it expects to be completed by October 2004. This item is being followed up by the Director, Administration Services Division.

54. **In paragraph 36**, UNDP agreed with the Board's recommendation that it update its inventory records on a regular basis to ensure that all additions and disposals are accounted for.

55. The newly implemented enterprise resource planning system (Atlas) will address the weakness identified by the Board. All non-expendable equipment items acquired from January 2004 will be capitalized in the assets module of Atlas. Training and guidelines on the assets module have already been provided to the country offices.

56. **In paragraph 40**, UNDP agreed with the Board's recommendation in paragraph 12 (b) that it implement measures to ensure that country offices comply with the financial regulations and rules and other directives in respect of inventory control.

57. A directive was issued to all country offices and other offices away from headquarters in mid-July 2004 on the issue of compliance with financial regulations and rules with respect to inventory control. This item is being closely monitored by UNDP.

58. **In paragraph 54**, UNDP agreed with the Board's recommendation that it should consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues, and that in this regard, UNDP should revert to paragraph 6 of resolution 57/278 of 20 December 2002, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.

59. This review would have to take into account the reporting needs of stakeholders who make use of the financial statements, and the content and audience for other financial reports that UNDP prepares for its Executive Board. UNDP would consider these disclosures as part of the financial report (chap. 1) to the

financial statements for the biennium 2004-2005. UNDP further informed the Board of Auditors that such a review should be spearheaded by the High-Level Committee on Management to ensure that it was consistent with efforts for simplification and harmonization within the United Nations system and UNDP would take up the overall matter of governance at the meeting of the High-Level Committee on Management in October 2004.

60. **In paragraph 57**, UNDP agreed with the Board's recommendations that it should: (i) consider reviewing schedule 8 as well as note 3 (d) and note 9 to the financial statements with a view to improving its disclosure and presentation; (ii) consider preparing separate statements for funds administered by UNDP; and (iii) disseminate improvements made to other United Nations organizations through inter-agency mechanisms such as the High-Level Committee on Management.

61. Items (i) and (ii) will be dealt with in the 2004-2005 biennium statements. Item (iii) is an ongoing process with the High-Level Committee on Management finance network.

62. **In paragraph 59**, UNDP agreed with the Board's reiterated recommendation to expedite clearance of the outstanding reconciling items and effect the appropriate adjusting entries in a timely manner.

63. The United Nations Secretariat follows up and clears the reconciling items and UNDP will ensure that reconciliations are undertaken on a timely basis and effect the adjusting entries accordingly.

64. **In paragraph 63**, the Board recommended that UNDP should continue to improve its mechanism to identify contributions and clear such receipts in a timely manner.

65. UNDP has a staffed position at headquarters for the follow-up of unidentified amounts. In addition, the recently implemented enterprise resource planning system, Atlas, supports the ability of country offices to apply income received directly into their own accounts, rather than having it applied by headquarters after monthly batch processes are run.

66. **In paragraph 70**, the Board reiterated it's previous recommendation that UNDP should: (i) ensure that all organizational units review unliquidated obligations on a monthly basis and provide the required certification of valid obligations in a timely manner; and (ii) follow up on any differences in unliquidated obligations reported by organizational units and make the necessary adjustments to the financial records.

67. UNDP has issued revised guidance to all staff to review unliquidated obligations on a regular basis and to close those that are no longer needed. To facilitate this, UNDP will continue to obtain written confirmations of unliquidated obligations reported by organizational units and make the necessary adjustments to the financial records.

68. **In paragraph 73**, UNDP agreed with the Board's reiterated recommendation to review regularly the complete ageing of accounts receivable with a view to collecting long-outstanding amounts.

69. The Atlas system will make it easier to regularly analyse accounts receivable data, verify the ageing of outstanding items on a worldwide basis and follow up long-outstanding items.

70. **In paragraph 12 (c)**, the Board recommended that UNDP, in conjunction with the administrations of the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service and post-retirement benefits liabilities. **In paragraph 77**, UNDP agreed with that reiterated recommendation.

71. UNDP informed the Board that it would continue to work together with the United Nations Population Fund (UNFPA) and the United Nations Office for Project Services, as well as with the High-Level Committee on Management finance network to formulate formal funding policies for after-service health insurance.

72. **In paragraphs 12 (d) and 86**, the Board recommended that UNDP, in conjunction with other United Nations organizations, develop mechanisms to effectively control inter-agency transactions in an efficient manner and to clear outstanding reconciling items.

73. UNDP will take advantage of the global Atlas enterprise resource planning system to improve the data flow with agencies and improve reconciliations.

74. **In paragraph 89**, UNDP agreed with the Board's reiterated recommendation to intensify its efforts to complete the review of outstanding advances provided to Governments and non-governmental organizations and to provide for amounts considered doubtful.

75. UNDP has written to each country office requesting it to take appropriate action on these advances. The Comptroller's Division, using Atlas reports, is actively following up with country offices on this issue. The review will be completed by the end of 2004.

76. **In paragraph 97**, UNDP agreed with the Board's reiterated recommendation to include audit clauses in all project agreements and that their implementation be monitored.

77. The UNDP Programming Manual states that audit clauses should be included in project agreements and the Office of Audit and Performance Review has already included (as of January 2004) in its country office audit guide procedures to test compliance with this section of the manual.

78. **In paragraph 103**, UNDP agreed with the Board's reiterated recommendation to continue to devote special attention to those country offices that do not submit their follow-up action plans, and obtain and evaluate the reasons for non-submission. The Board further recommended and UNDP agreed that it evaluate the feasibility of extending the Comprehensive Audit Recommendation Database System (CARDS) to include the monitoring of the status of implementation of audit recommendations made by the nationally executed (NEX) expenditure project auditors as well.

79. UNDP will explore the possibility of extending CARDS to country offices and project staff to assist them in their follow-up of the recommendations made by the NEX project auditors. The Office for Audit and Performance Review will endeavour to prepare a user requirements document that reflects the internal requirements of

that Office, NEX reports, country offices, and projects by the end of the fourth quarter of 2004.

80. **In paragraph 107**, UNDP agreed with the Board's reiterated recommendation to base its planned audit coverage of nationally executed expenditure projects in accordance with its criteria. The Board further recommended that UNDP should continue to evaluate the reasons for nationally executed expenditure projects, which were not being subjected to audit by the country offices, in terms of UNDP guidelines.

81. The follow-up with country offices is ongoing and, as a result, country offices have included additional projects for audit and/or have provided reasons for excluding projects from audit.

82. **In paragraph 111**, UNDP agreed with the Board's recommendation that it intensify its efforts to complete the compilation of the comprehensive database to facilitate the implementation of a risk-based assessment model.

83. UNDP agrees with the Board that a proper risk assessment is necessary in order to assess reasonably whether the benefits of an audit are likely to exceed the costs, with respect to projects executed by Governments or by NGOs. In this regard, UNDP has instructed country offices to conduct a risk analysis, taking into account their local environments, and make recommendations to the UNDP Office for Audit and Performance Review as to whether audits should be arranged. UNDP agrees that the process for conducting the risk assessment could be improved and anticipates that the recommendations of the United Nations Development Group "Resource Transfer Modality" working group will achieve this. The working group would prepare guidelines on auditing and technical notes on risk assessment at the end of 2004.

84. **In paragraphs 12 (e)**, the Board recommended that UNDP should: (i) quantify the financial effect of qualified audit opinions on nationally executed expenditure; and (ii) evaluate such qualifications against the action plans for reasonableness. **In paragraph 114**, UNDP agreed with that reiterated recommendation.

85. The technical guideline "Specimen terms of reference for audits of NEX or NGO" will be revised by the Office for Audit and Performance Review by the end of 2004 to clarify these requirements and address inconsistencies.

86. **In paragraph 118**, UNDP agreed with the Board's recommendation that it should compile a comprehensive information and communication technology (ICT) strategy that addressed the short-, medium- and long-term objectives, risks and constraints.

87. UNDP informed the Board that it would ensure that subsequent revisions of the 2004-2005 strategy, and future documents, considered the above. Risk issues are addressed in the 2004-2005 ICT strategy announced by UNDP in July 2004.

88. **In paragraph 122**, UNDP agreed with the Board's recommendation that it should consider the benefits of adopting international standards and best practices to be applied to its information and communication technology environment.

89. UNDP informed the Board that the Office of Information Systems and Technology is considering appropriate international standards in the context of stabilizing the Atlas implementation.

90. **In paragraph 131**, UNDP agreed with the Board's recommendation that it should translate the benefits of the enterprise resource planning project into appropriate quantifiable and measurable targets to be measured and reported on at appropriate intervals.

91. The impact will be assessed through a benefits log maintained centrally, which will be only revised and updated after the Atlas system has been stabilized, and ultimately through results captured by means of the results-based management practices of UNDP.

92. **In paragraph 133**, UNDP agreed with the Board's recommendation that it should continuously monitor the Atlas implementation expenditure in order to remain within the allocated budget.

93. UNDP will continue to monitor the costs of Atlas implementation in order to stay within budget.

94. **In paragraph 136**, UNDP agreed with the Board's recommendation that it should expand contingency measures to ensure that it had the ability to continue to provide information system processing capabilities.

95. The outsourcing company has provided total disaster recovery guarantee within 24 hours and with a maximum loss of four hours' data. A procedure is in place to manage "off-line" payments that may be necessary on an emergency basis.

96. **In paragraph 141**, UNDP agreed with the Board's recommendation that it should deploy appropriate monitoring tools to monitor the performance of the system.

97. UNDP has developed and deployed performance monitoring tools and, in July 2004, they were made accessible to local area network (LAN) managers of each country office. Performance monitoring of the Unisys/Corio contracted infrastructure began formally in July 2004.

98. **In paragraph 144**, UNDP agreed with the Board's recommendations that it should: (i) update the data conversion strategy to reflect all decisions taken and communicate the various decisions appropriately; (ii) finalize the implementation plan of the Enterprise Performance Management (EPM) data warehouse as soon as possible; and (iii) task its internal audit section to verify the validity and accuracy of the journals to be posted as a result of the data clean-up.

99. The EPM plan is part of Wave 2 planning being done by UNDP and its partners. EPM priority would be set in reference to the other priorities. The internal audit section is in the process of verifying the validity and accuracy of the data clean-up and should have completed this assignment by the end of the fourth quarter of 2004.

100. **In paragraph 147**, UNDP agreed with the Board's recommendation that it should expedite the development and implementation of the policy on managing access to the Atlas query tool.

101. A consultant has been appointed to develop a policy on managing access to the Atlas query tool.

102. **In paragraph 150**, UNDP agreed with the Board's recommendation that it should establish minimum standard requirements against which to measure the response time to resolve problem cases.

103. A draft policy to this effect will be tested in the third quarter of 2004, with planned deployment by the fourth quarter of 2004. The Director of the Center for Business Solutions is responsible for this as of 1 September 2004.

104. **In paragraph 157**, UNDP agreed with the Board's recommendation that it should perform an independent comprehensive post-implementation evaluation review of the set-up and effectiveness of the built-in controls of the Atlas system as soon as possible.

105. UNDP is holding discussions with other United Nations implementing partners on performing a comprehensive independent third party post-implementation review of Atlas.

106. **In paragraph 160**, UNDP agreed with the Board's recommendation that it should compile, approve and disseminate to all staff an overall internal control framework that covers all modules of Atlas as a matter of priority.

107. UNDP has revised the internal control framework for accounts payable and will continue to review the overall internal control framework as part of an overall risk assessment of UNDP over the biennium 2004-2005.

108. **In paragraph 164**, UNDP agreed with the Board's recommendation that it should institute adequate segregation of duties on Atlas to lower the risk of fraud and errors.

109. This issue will be covered as part of the review of the internal control framework that is under way.

110. **In paragraph 168**, UNDP agreed with the Board's recommendation that it should intensify its effort to resolve the limitations on the general ledger module as a matter of priority.

111. The general ledger as of June 2004 had been activated and would be fully populated and operational by the third quarter of 2004.

112. **In paragraph 173**, the Board recommended that UNDP should intensify its efforts to resolve the limitations affecting the non-performance of the bank reconciliations to ensure proper monitoring controls over cash balances.

113. UNDP agrees with the recommendation.

114. **In paragraph 178**, the Board recommended that UNDP should institute adequate controls to ensure compliance with its prescribed rules on the approval of payments.

115. Interim instructions were given to all users at the end of July 2004 on how to offset entries in the bank, payable, receivable and treasury modules. Another interim programme is currently being tested to facilitate a bank reconciliation with general ledger balances by the end of September 2004. The final step will be to set up in the general ledger a separate account for each bank account that UNDP operates. (Currently all banks are commingled.) This will be implemented in 2005 when the opening bank account balances are reconciled and available.

116. **In paragraph 180**, UNDP agreed with the Board's recommendation that it should take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after the payment voucher has been approved.

117. This change is planned for the third quarter of 2004.

118. **In paragraph 183**, UNDP agreed with the Board's recommendation that it ensure that payments split between two or more budget holders are approved by both budget holders before payment takes place.

119. UNDP has identified this item as a required fix to the system and will be scheduled accordingly.

120. **In paragraph 185**, UNDP agreed with the Board's recommendation that it provide additional training regarding the UNDP Financial Regulations and Rules to users responsible for the approval of purchase orders and payment vouchers.

121. Training is a continuous process including headquarters-based budget holders.

122. **In paragraph 189**, UNDP agreed with the Board's recommendation that it conduct regular internal audits to monitor adherence to the UNDP Financial Regulations and Rules and to assess internal controls, especially during the initial implementation phases of Atlas.

123. UNDP has already commented extensively on the proposed reports to be produced from Atlas. Regarding the impact of Atlas on the audit and investigation functions, the Office for Audit and Performance Review planned to conduct internal training for staff in September 2004, focusing on extracting and analysing reports from Atlas. By late September, the country office audit approach will be revised to incorporate a review of internal controls around the implementation of Atlas, and by November it will be tested.

124. **In paragraph 193**, UNDP agreed with the Board's recommendation that it should expedite its efforts to develop and put into operation all exception/monitoring reports.

125. These items are being prioritized in the development of reports.

126. **In paragraph 196**, the Board recommended that UNDP should take immediate steps to ensure that the Brazil country office implement Atlas in a cost-effective and efficient manner.

127. Brazil will not migrate to Atlas until the issue of external access is addressed within the context of Wave 2. In the meantime a team from UNDP Brazil, the staff of the work improvement tools (WITs) project and the Office of Information Systems and Technology are building an interface between Atlas and Systems, Applications, Products in Data Processing (SAP). This is expected to be completed in the fourth quarter of 2004.

128. **In paragraph 199**, the Board recommended that UNDP should reconsider the activation of the audit trail function, especially as an interim measure, taking into account the benefits and effect it would have on the operations of Atlas.

129. Action to implement the recommendation is pending the outcome of the independent evaluation of UNDP internal controls.

130. **In paragraph 204**, the Board recommended that UNDP should allocate resources urgently to resolve the shortcomings identified with Atlas as soon as possible, especially those classified as critical.

131. The release plan is on schedule and the shortcomings have and are being addressed in regular releases since April 2004.

132. **In paragraph 210**, UNDP agreed with the Board's recommendation that it ensure that the Management Review and Oversight Committee meet more frequently in order to effectively carry out its oversight responsibilities.

133. The Management Review and Oversight Committee has not met for some time owing to the reorganization of the internal audit function and because UNDP is considering revising the terms of reference for the Committee to bring it into closer alignment with international best practices. UNDP agrees that the Management Review and Oversight Committee is an important component of the UNDP governance structure and plans to hold the next meeting of the Committee in September 2004, subject to the availability of the members. More broadly, the role of audit committees will also be addressed by the High Level Committee on Management in October 2004.

134. **In paragraph 212**, the Board recommended that UNDP address the shortcomings identified between the Management Review and Oversight Committee and best practices for an audit committee function.

135. UNDP agrees with the recommendation and is in the process of reviewing the terms of reference and the membership of the Management Review and Oversight Committee. UNDP will also take into full consideration any recommendations made by the High Level Committee on Management in October 2004.

136. **In paragraph 216**, UNDP agreed with the Board's recommendation that it should: (i) evaluate establishing a risk management function responsible for implementing a risk management strategy at UNDP; and (ii) conduct a comprehensive risk assessment exercise.

137. UNDP does assess risk; however, it agrees that the exercise should be formalized. A key exercise in place is the Global Staff Survey, which helps evaluate "soft control" issues that touch on the moral climate and behaviour of staff in all offices. The data are then analysed by management and staff at both the office or unit level and the regional level. UNDP is exploring options for conducting a comprehensive risk assessment exercise and hopes to complete it before the end of 2004. UNDP will also review its risk management function and will take into consideration recommendations made by the High Level Committee on Management in October 2004.

138. **In paragraph 219**, UNDP agreed with the Board's recommendation that it establish mechanisms needed to manage risk in terms of best practices.

139. UNDP is reviewing this issue in parallel with the governance issue being addressed at the High Level Committee on Management in October 2004.

140. **In paragraph 223**, UNDP agreed with the Board's recommendation that it expedite filling vacancies within the Office of Audit and Performance Review.

141. Recruitment for the Director of the Office for Audit and Performance Review was still in progress in August 2004. Regarding the remaining nine vacancies, the

recruitment of six programme specialists and one quality assurance officer is still in progress. Interviews are scheduled for mid-August and recruitment should be completed by November 2004. Two investigation specialists had been recruited and came on board on 1 July 2004.

142. **In paragraph 229**, UNDP agreed with the Board's recommendation that it: (i) consider making the Management Review and Oversight Committee part of the panel responsible for the appointment and assessment of the head of the internal audit department; (ii) include evidence of considerations of independence in its working papers prior to the commencement of any audits; (iii) ensure that internal audit compiles and implements a three-year strategic plan that addresses the risk management strategy; and (iv) ensure that the Management Review and Oversight Committee approve all three-year and annual audit plans and significant amendments thereto before implementation.

143. Evidence of independent considerations in working papers will be provided and a three-year strategic plan addressing the risk management strategy will also be prepared, and submitted to the Management Review and Oversight Committee by the last quarter of 2004. UNDP would comply with Institute of Internal Auditors (IIA) standards as appropriate in this regard.

144. **In paragraphs 12 (f) and 236**, the Board recommended that UNDP should revise its programme of internal audit work to include an appropriate level of coverage on financial procedures and controls at headquarters, and UNDP agreed with that reiterated recommendation.

145. Audit plans will be revised to cover financial procedures and controls at headquarters by September 2004.

146. **In paragraph 240**, UNDP agreed with the Board's recommendation that it should document the reasons for delays in implementing the recommendations of the Office of Audit and Performance Review.

147. Effective October 2004, UNDP will be documenting the reasons for delays in implementing the recommendations of the Office of Audit and Performance Review.

148. **In paragraph 246,** UNDP agreed with the Board's recommendation that it: (i) determine a standard time frame for the timely issuance of reports; and (ii) monitor compliance with these standards on a regular basis while documenting and following up the reasons for any significant delays.

149. UNDP will take steps by the fourth quarter of 2004 to monitor these requirements and to hold the chiefs of the respective audit centres accountable for non-compliance.

150. **In paragraph 12 (g)**, the Board recommended that UNDP should consider establishing a risk management framework, based on best practices, in the context of its review of governance structures as requested by the General Assembly in paragraph 6 of its resolution 57/278.

151. UNDP agrees with the recommendation. The matter is being followed up at the meeting of the High Level Committee on Management in October 2004.

152. **In paragraphs 12 (h) and 256**, UNDP agreed with the Board's recommendation that it: (i) update the current treasury policies and procedures to be in line with best practices, taking into account the restructuring process and the

implementation of the Atlas system; and (ii) incorporate all management reporting policies and procedures into the treasury policy and procedures.

153. The Treasury Policy and Procedures Manual will be updated by the end of the first quarter of 2005. One component of the Manual, Investment Guidelines, will be presented to the Investment Committee for consideration at its October 2004 meeting. The Treasurer is responsible for completion.

154. **In paragraph 260**, UNDP agreed with the Board's recommendation that its Investment Committee should determine the management information required at the different levels of reporting and create the relevant reports.

155. Eight reports have already been specified and put into production, and additional reports will be developed in 2004, as required. The Treasurer is responsible for completion.

156. **In paragraph 267**, UNDP agreed with the Board's recommendation that it prepare, monitor and evaluate short-term projected cash flows for all country offices, in each currency, in an improved manner, in order to anticipate future funding or investment requirements.

157. The UNDP Treasury Division will implement a cash position worksheet tool in 2004, which is embedded in the Atlas cash management module to support over time the preparation, monitoring and evaluation of short-term projected cash flows for most offices and currencies in which UNDP operates. The Treasurer is responsible for the full implementation of the recommendation.

158. **In paragraph 274**, UNDP agreed with the Board's recommendation that it review periodically the delegated levels of authority in treasury to reaffirm the appropriateness of such authorities.

159. As noted, Treasury Division management will periodically review the delegated levels of authority, commencing in March 2005. The Treasurer is responsible for completion.

160. **In paragraph 277**, the Board recommended that UNDP perform additional trade verification procedures, such as monitoring of credit and market risk limits, independently of the trading function.

161. The implementation of the risk management module in 2004 will enhance the Treasury Division's ability to monitor credit and market limit risks. The module will be implemented in August 2004. The Treasurer is responsible for completion.

162. **In paragraph 279**, UNDP agreed with the Board's recommendation that it should regularly review computer security and communication controls.

163. The Treasury Division will confer internally with the Office of Information Systems and Technology in the second half of 2004 on methodology to be used for such reviews. The Treasurer is responsible for initiating the conference.

164. **In paragraph 282**, the Board recommended that UNDP re-evaluate its policy in respect of the maximum exposure with any counterparty to include more than one constraining factor.

165. The revised investment guidelines document to be completed and approved in 2004 will address this matter. The Treasurer is responsible for completion.

166. **In paragraph 285**, the Board recommended that UNDP: (i) formally document and approve policies and procedures for the valuation of foreign exchange, bonds and interest accruals; and (ii) include interest accruals in the monthly management reports.

167. The Treasury Division will liaise with the Comptroller's Division on the formulation of a policy and procedures statement for the valuation of foreign exchange hedges and bonds and interest accruals during the second half of 2004. Information on interest accruals will be included in monthly management reports to the extent that management finds such information useful. The Treasurer and Comptroller are jointly responsible for completion.

168. **In paragraph 288**, UNDP agreed with the Board's recommendation that it generate and review a report of reconciling items between the Treasury Module and the accounting records.

169. The UNDP Treasury Division will implement this recommendation in the second half of 2004. The Treasurer is responsible for completion.

170. **In paragraphs 12 (i) and 290**, the Board recommended and UNDP agreed with the Board's recommendation that UNDP: (i) perform adequate internal audit reviews based on the outcome of a Treasury risk assessment and bearing in mind specialist areas; (ii) involve internal audit in assessing the overall adequacy of the information technology and risk management systems of UNDP's Treasury; and (iii) require internal audit to report regularly to the Investment Committee on matters relating to Treasury.

171. UNDP will include the issues raised above in the audit plans of its Treasury Division.

172. **In paragraph 297**, UNDP agreed with the Board's recommendation that it should establish a clear time frame for implementation of results-based budgeting.

173. UNDP has engaged the services of a consultant to prepare a concept paper with a practical framework for introducing and implementing results-based budgeting. It is expected that a consensus will be reached on a common framework for results-based budgeting during the last quarter of 2004. A workable implementation strategy will be developed during the latter part of 2004.

174. **In paragraphs 12 (j) and 303**, the Board recommended and UNDP agreed with the Board recommendation that UNDP should provide guidance to country offices in its efforts to monitor the correlation between reported expenditures and the level of project implementation. In paragraph 303, UNDP also agreed with the Board's recommendation that it should improve its performance measurement process to: (i) monitor technical implementation in comparison to financial implementation at the performance indicator level and/or using a weighted average aggregate technical implementation rate, based on a feasibility analysis; (ii) ensure that all targets are realistic and stated in measurable terms where possible; (iii) receive progress reports in a timely manner; and (iv) revise targets to take into consideration exchange rate fluctuations.

175. UNDP has prioritized this issue through the inclusion of a new budget format in Atlas and by active participation in the United Nations Development Group Simplification and Harmonization Group.

176. **In paragraph 306**, UNDP agreed with the Board's recommendations that it should: (i) evaluate the causes for the delays in completely closing off projects and take appropriate action to rectify these causes (para. 12 (k)); and (ii) take immediate steps to finalize all outstanding activities of operationally completed projects currently in compliance with the UNDP Programming Manual.

177. Atlas has a functionality that will allow UNDP to monitor the closing of operationally closed projects at country offices.

178. **In paragraph 309**, UNDP agreed with the Board's reiterated recommendation to establish benchmarks for performance for contract letting and to monitor performance against those standards. The Board further recommended that UNDP should continue to seek ways to streamline its contract letting process.

179. The actions being taken by UNDP to streamline its contract letting process include the creation of a paperless Advisory Committee on Procurement and the establishment of a regional Advisory Committee on Procurement. This is expected to reduce processing time by one week.

180. **In paragraphs 12 (l) and 312**, the Board recommended that UNDP should evaluate supplier performance in terms of the guidance provided in the UNDP Procurement Manual, and UNDP agreed with that recommendation.

181. Training has been provided on the evaluation of supplier performance. Systems are being improved in 2004-2005 to provide the opportunity to record supplier evaluations.

182. **In paragraph 320**, the Board encouraged UNDP and the United Nations Volunteers (UNV) to continue with the efforts to follow up on all inactive fully funded arrangements with a view to finalizing all outstanding activities and to comply with the specific closure requirements included in the donor agreements.

183. UNDP regularly follows up inactive trust funds with the relevant fund managers to obtain a decision from the donor on the utilization of the funds. UNV has written letters to its donors requesting action to be taken.

184. **In paragraph 326**, UNDP agreed with the Board's recommendation that it: (i) expedite its revision of the Special Service Agreement guidelines; and (ii) adhere to the SSA guidelines in respect of the duration of contracts.

185. UNDP has initiated a review of the Special Service Agreements (SSAs) guidelines and prepared a first draft of a revised manual. Organizational approval processes and review will take place in the third quarter of 2004, led by the Office of Human Resources Management. The revised manual includes a new arrangement for the SSA review committee.

186. **In paragraph 328**, UNDP agreed with the Board's recommendation that it review the performance of staff on SSAs during the period of service in order to: (i) effectively monitor the progress of SSAs; and (ii) identify weaknesses in performance at an early stage so that the appropriate action can be taken.

187. UNDP will ensure that the above recommendation is carried out on a regular basis.

188. **In paragraph 331**, UNDP agreed with the Board's recommendation that it should consistently and fully document the minutes of all Appointments of Limited

Duration (ALDs) ad hoc panel meetings. Furthermore, the Board recommended that UNDP should include in the file of the selected candidate the minutes of the related ALDs ad hoc panel meetings.

189. The bureaux have been reminded to document the minutes of the panel meeting and place a copy in the selected candidate's file. A new ALDs user guide has been prepared which reinforces this procedure. Organizational approval processes and review of the manual will take place in the fourth quarter of 2004, led by the Office of Human Resources Management.

190. **In paragraph 333**, UNDP agreed with the Board's recommendation that it should undertake timely performance assessments for ALDs in order to: (i) effectively monitor their progress; and (ii) identify weaknesses in performance at an early stage so that appropriate action can be taken.

191. The bureaux have been reminded to undertake timely performance assessments and identify weakness in performance when appropriate. A new ALD user guide has been prepared which reinforces this procedure. Organizational approval processes and review of the manual will take place in the fourth quarter of 2004, led by the Office of Human Resources Management.

192. **In paragraph 335**, UNDP agreed with the Board's recommendation that it consider converting the present ALD contracts, which are classified as appointments of a permanent nature, to the appropriate type of contract in terms of the UNDP employment directives.

193. The guidelines for ALD are being updated and the above recommendations will be taken into account and clearly reflected therein.

194. **In paragraph 340**, UNDP agreed with the Board's recommendation that it should follow a more rigorous process in future to ensure that value for money is obtained when consultants are appointed.

195. Value for money is one of the criteria in the process of procurement of consultants' services. A rigorous process is followed in most cases.

196. **In paragraph 347**, UNDP agreed with the Board's recommendation that it should continue with its efforts to implement a Learning Management System in order to properly benchmark and evaluate the impact of initiatives taken.

197. UNDP is continuing with its efforts to implement a Learning Management System.

198. **In paragraph 352**, UNDP agreed with the Board's reiterated recommendation to finalize and implement the service-level agreements for services provided by UNDP to UNFPA and UNOPS as a matter of priority.

199. This is being actively followed up by UNDP and it is expected to be completed in the third quarter of 2004.

200. **In paragraph 358**, UNDP agreed with the Board's recommendation that it should continuously monitor the savings derived from the retrofitting of the FF-building to evaluate whether the project generates the expected savings.

201. The savings are being constantly monitored for this purpose.

202. **In paragraph 362**, UNDP agreed with the Board's recommendation that it implement procedures to review environmental concerns during the procurement process, using the guidance provided in the UNDP Procurement Manual.

203. UNDP is addressing this issue within the context of its procurement strategy for 2004-2007, which is expected to be issued in December 2004. The implementation of these procedures will follow, during the first quarter of 2005.

204. **In paragraph 371**, the Board recommended that UNDP expedite its follow-up of the outstanding response with the Office of Legal Affairs of the United Nations and intensify its efforts to finalize the outstanding reimbursement.

205. UNDP is re-opening negotiations directly with UNICEF in September 2004 with a view to settling this long-standing dispute.

206. **In paragraph 379**, UNDP agreed with the Board's recommendation that it, in conjunction with UNFPA and UNOPS, intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.

207. The fraud policy statement has been completed and is expected to be published in the third quarter of 2004. The timetable for the remaining actions within the fraud prevention strategy is being finalized by the inter-agency group during the third quarter of 2004, for implementation in 2004-2005. The directors of the Office for Audit and Performance Review and the Office of Legal and Procurement Support are jointly responsible for this activity.

IV. United Nations Children's Fund

208. The actions taken or to be taken to implement the recommendations of the Board of Auditors in its report on the accounts of the United Nations Children's Fund (UNICEF) for the biennium ended 31 December 2003[4] are set out below. The Executive Director of UNICEF is ultimately responsible for overseeing the implementation of audit recommendations. This responsibility is, however, shared with the senior staff responsible for the specific areas covered in the audit recommendations, such as the Comptroller and other divisional directors.

209. **In paragraph 23 of its report**, the Board recommended that, in the future, UNICEF should ensure that the value of payables and receivables is disclosed in full, in compliance with the United Nations system accounting standards.

210. UNICEF will ensure that payables and receivables are presented, in accordance with United Nations system accounting standards. Completion expected by the end of 2004.

211. **In paragraph 33**, the Board recommended that UNICEF disclose in the financial report items in terms of best governance principles, relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues.

212. UNICEF will, in the context of the High Level Committee on Management, work with the United Nations and the Executive Committee of the United Nations Development Group to address this issue in the competent forums.

213. **In paragraphs 12 (a) and 36**, the Board reiterated its recommendation that UNICEF assess more accurately the amount of the accounts payable to the Pension Fund, in coordination with the Fund.

214. With the introduction of the Programme Manager System personnel and payroll module to all UNICEF offices, discrepancies with the Pension Fund have been minimized. The difference, which pertains to prior years, needs detailed review and analysis which is ongoing and is receiving priority action from management.

215. **In paragraph 44**, the Board recommended that UNICEF, in cooperation with other United Nations organizations participating in the medical insurance plan, finalize its review of (a) the funding of the plan and (b) the way income and expenditure of the plan are disclosed.

216. UNICEF is actively participating in the ongoing inter-agency review of the medical insurance plan. The review covers issues of governance, different forms of administration and the design and funding of benefits etc. The outcome of this review, which is expected to be completed in the fourth quarter of 2005, will provide a basis for a uniform approach and for disclosure of income and expenditure.

217. **In paragraph 48**, the Board reiterated its recommendation that UNICEF amend the presentation of its financial statement for cost recovery or submit a new definition of programme support expenditure to its Executive Board.

218. UNICEF management will review this recommendation further in the light of the organization programmatic and business models.

219. **In paragraph 51**, the Board recommended that UNICEF disclose all net contributions in its schedule 1.

220. In the future, UNICEF will disclose all net contributions in its schedule 1.

221. **In paragraph 53**, the Board reiterated its previous recommendation that UNICEF expedite the finalization of its new policy on contributions in kind.

222. The Executive Director of UNICEF has issued a new Executive Directive policy (CF/EXD/2004-12), dated 7 July 2004, which sets out the policy and framework for in kind assistance.

223. **In paragraph 56**, the Board recommended that UNICEF (a) promulgate its instruction on monthly reporting on medical insurance plan expenditure by field offices and (b) review the accuracy of data submitted by field offices that are used in actuarial valuation.

224. The recommendation is endorsed, and UNICEF will issue the appropriate instructions by the fourth quarter of 2004. These instructions will emphasize the necessity to submit, on time, the required monthly and annual reports which will be reviewed in terms of accuracy and suitability to serve as a basis for actuarial valuation.

225. **In paragraphs 12 (b) and 60**, the Board recommended that UNICEF (a) issue a new instruction on non-expendable property, (b) investigate all remaining "suspense" items and (c) update its inventory lists.

226. UNICEF will: (a) issue a new instruction on non-expendable property; (b) continue to investigate all remaining "suspense" items; and (c) update its inventory lists, all to be completed by the end of 2004.

227. **In paragraph 63**, the Board recommended that UNICEF comply with financial circular 10, regarding the role of the headquarters Property Survey Board, including in respect of the investigation of missing property.

228. UNICEF management will ensure compliance with financial circular 10 regarding the role of the headquarters Property Survey Board, including the investigation of missing property.

229. **In paragraph 66**, the Board reiterated its recommendation that the Private Sector Division manage more proactively its accounts receivable, by systematically planning for remittances and write-offs and by a thorough annual collectability analysis of all receivables.

230. The Private Sector Division will continue to enhance the monitoring and collection of accounts receivable. Action has been taken to clear all old balances, and current receivables are duly analysed for collectability.

231. **In paragraphs 12 (c) and 72**, the Board recommended that UNICEF (a) be more proactive in the recovery of contributions receivable and (b) document its efforts to collect them, in compliance with financial circular 31.

232. The collection of outstanding contributions receivables is of high priority and is followed up on a regular basis, in compliance with financial circular 31.

233. **In paragraph 76**, the Board recommended that UNICEF review each year the adequacy of its provision for uncollectable contributions and cover all receivables identified as in doubt.

234. UNICEF reviews its provision for uncollectable contributions annually and ensures that it is adequate.

235. **In paragraph 79**, the Board recommended that UNICEF fully comply with financial circular 31 for the annual approval of the recognition of income from non-governmental donors on a pledge basis.

236. Management has taken note of the recommendation of the Board and will ensure compliance with financial circular 31.

237. **In paragraphs 12 (d) and 81**, the Board recommended that UNICEF (a) revise the Private Sector Division special supplement to its Financial Regulations and Rules and (b) update the Division's finance manual.

238. The updating of the documentation of procedures of the Private Sector Division, starting with cost accounting, has been initiated. This will be followed by the updating of major principles and procedures affecting financial statements and the revision of the Greeting Card Operation (now known as the Private Sector Division) special supplement to the Financial Regulations and Rules. This work is expected to be completed by mid-July 2005.

239. **In paragraph 90**, the Board welcomed the development of the new joint planning documents with national committees and recommended using them with all national committees.

240. In relation to the cooperation agreements, 33 committees had signed such agreements by the end of 2003. The remaining 3 eligible committees are expected to sign the agreements by the end of 2004, which will bring coverage to 36 committees.

241. With regard to joint strategic planning documents, by the end of August 2004, 15 national committees will have signed the documents and 8 more are expected to follow suit by the end of 2004. An additional 8 documents are to be signed in 2005. This means that, by the end of 2005, 31 national committees will have gone through the new joint strategic planning process. UNICEF will continue this effort to ensure a complete coverage of the remaining committees through appropriate joint strategic planning arrangements.

242. **In paragraphs 12 (e) and 99**, the Board recommended that UNICEF (a) further analyse the differences between planned and actual retention rates and (b) enforce financial rule 9.04, according to which the sales agents may be authorized to retain up to 25 per cent, and not more, of their gross sales proceeds from Greeting Card Operation products.

243. The Private Sector Division has received and reviewed income and expenditure targets and contribution rates from national committees for 2004. These forecasting formats were harmonized with the new process for reporting annual revenue and expenditure. An appropriate review will be carried out in early 2005 of receipt of the revenue and expenditure reports from the committees.

244. The resource mobilization objectives of national committees, established jointly through joint strategic planning, are intended to maximize the contribution of the committees to UNICEF programmes. UNICEF will tap into the annual revenue and expenditure reports to monitor progress in maximizing net proceeds.

245. **In paragraphs 12 (f) and 105**, the Board encouraged UNICEF to place further emphasis on the 80 per cent target for remittances by national committees in the negotiation of the joint strategic planning documents.

246. Management will emphasize the 80 per cent target in relevant communications between the Geneva Regional Office and Private Sector Division and the committees as part of the joint strategic planning process.

247. **In paragraph 109**, the Board recommended that UNICEF share the forthcoming yearly fund-raising cost structure analysis with the national committees and provide incentives to limit fund-raising costs.

248. UNICEF will continue its engagement with the national committees to maximize the net contribution to UNICEF. In its interface with national committees, it will tap into data on fund-raising cost analysis and will introduce external performance benchmarks in order to ensure that the activities of the Private Sector Division remain among the most efficient in relation to other similar global organizations.

249. **In paragraph 114**, the Board recommended that UNICEF harmonize the accounting methods for the fund-raising income of the national committees.

250. Management is reviewing options to further harmonize and coordinate the methods used to account for and monitor the fund-raising income and receivables of

national committees. UNICEF expects to resolve this matter by the fourth quarter of 2005.

251. **In paragraphs 12 (g) and 118**, the Board recommended that UNICEF exercise full control over the use of its brand name and logo by partners and require that they use their own full name, not that of UNICEF alone, in connection with all donations, whether in cash or in kind, that are not controlled by the Administration.

252. Management has taken note of the recommendation and will communicate this as part of the in kind assistance policy dissemination to partners by the fourth quarter of 2004, emphasizing compliance with set principles and guidelines.

253. **In paragraph 123**, the Board recommended that UNICEF continuously monitor fund-raising investments, funding progress and final reports.

254. Systematic reporting, follow-up and measures for compliance to closely monitor fund-raising investments and their returns are in place.

255. **In paragraph 135**, while commending UNICEF for the implementation of its previous recommendations, the Board recommended that it continue its efforts (a) to further reduce the balance outstanding for more than nine months and (b) to improve disbursement planning by focusing on regions and countries presenting the highest risk in cash assistance management.

256. UNICEF is appreciative of the Board's commendation on the significant progress achieved in the management of cash assistance and will continue to work towards: (a) further reduction of the cash assistance outstanding for more than nine months; and (b) improvement in disbursement planning.

257. **In paragraphs 12 (h) and 138**, the Board recommended that UNICEF (a) ensure full compliance of all its decisions and instructions, such as on contracts and allowances, with the United Nations Staff Regulations and Rules, while (b) continuing to review with the United Nations Secretariat the delegation of authority to the Executive Director.

258. UNICEF has advised the Office of Legal Affairs of the United Nations Secretariat of the observation of the Board regarding the delegation of authority to the Executive Director. It believes that the observations should be directed by the Board to the Office of Legal Affairs for a response, since accountability for maintaining up-to-date delegations of authority are in the domain of the Secretariat.

259. As regards the establishment of contracts and allowances, UNICEF uses the normative requirements, as set out in the United Nations Staff Regulations and Rules, and the recommendations of the International Civil Service Commission. However, it is understood that, within this framework, the various requirements of funds, programmes, and specialized agencies need to be considered. The flexibility to adjust policies to operational needs is required and accepted. This is illustrated in the reform proposals of the Secretary-General, which identify the management of human resources by the funds and programmes as an area for replication by the United Nations.

260. **In paragraph 140**, the Board recommended that UNICEF (a) update and complete the human resources manual and (b) evaluate the cost-effectiveness of translating it into other official languages widely used in its field offices.

261. UNICEF wishes to report that diligent work has been done in terms of updating and completing the human resources manual through an ongoing effort that has been sustained since the exercise began in 1997. This is a laborious process to which UNICEF is committed (as evidenced by the many human resources policies and chapters of the manual issued in the past two years), and it is anticipated that the bulk of this work will be completed by the end of the 2004. Furthermore, work on the new chapters related to emergencies and staff well-being will be started in 2005. UNICEF will also look at the cost-effectiveness of translating the manual into the other official languages widely used in its field offices.

262. **In paragraph 144**, the Board recommended that UNICEF (a) clearly define the criteria applied to assess the certainty of funding resources before including them in its budget and (b) disclose the fact that support budget documents include all estimated funding but only programme posts that are already funded.

263. UNICEF agrees with the recommendation and will revise the notes of annex III to the budget document accordingly.

264. **In paragraphs 12 (i) and 148**, the Board recommended that UNICEF minimize the number of staff members employed at post levels lower than their personal levels.

265. The need for the rotation and placement of staff will, in some limited cases, result in staff members being assigned to posts that do not correspond to their personal grades. While these cases will be marginally significant in the overall realm of the exercise, such placements provide a necessary flexibility required by the operational imperatives of the organization.

266. **In paragraph 152**, the Board recommended that UNICEF continue its efforts to expand recruitment from developing countries for international Professional posts.

267. The organization will continue its efforts to expand recruitment from developing countries for the international Professional category, and will include information on regional recruitments in a report to the Executive Board at its second regular session, to be held in September 2004.

268. **In paragraph 157**, the Board recommended that UNICEF ensure compliance with its budget guidelines on reporting on temporary fixed-term staff in the country programme management plan.

269. The management of temporary assistance is a decentralized responsibility. The planned use of temporary fixed-term contracts and consultants are reviewed and approved during the programme budget review process and included in the country programme management plan and office management plan. The organization will introduce an annual report on the use of staff holding temporary fixed-term contracts and the duration of their appointments. The report for 2003 will be produced during the fourth quarter of 2004.

270. **In paragraph 162**, the Board recommended that UNICEF improve its management of staff rotation.

271. The organization has a comprehensive policy on staff rotation to meet its goals and objectives. It will endeavour to effect continuous improvement within the parameters of the policy.

272. **In paragraph 167**, the Board recommended that UNICEF strengthen controls over the dependency allowance.

273. Through the issuance of administrative instruction CF/AI/2001-003 amend.1 dated 12 March 2003, on dependency allowances, the organization reintroduced the dependency status report form, thereby continuing to make every effort to ensure that the dependency allowance is properly applied and administered with the necessary controls.

274. **In paragraph 170**, the Board recommended that UNICEF further (a) clarify its policy regarding family duty stations included in the special operations approach and (b) document and monitor decisions on special operations living allowances areas and rates.

275. The UNICEF policy on the special operations approach, as contained in administrative instruction CF/AI/1999-013 dated 21 December 1999, sets out clear criteria for the designation of duty stations under the scheme. Operational flexibility is needed to monitor developments on the ground and make well-informed decisions as regards the appropriateness of either introducing or discontinuing the scheme at a given duty station. This is done after discussion among the operational agencies that apply this scheme.

276. With regard to documenting decisions, the administrative instructions on duty stations included in the special operations approach, which are issued on a regular basis, describe the reasons and circumstances that lead either to the introduction or discontinuation of the scheme. The rates are based on either the Daily Subsistence Allowance (DSA) or the Mission Subsistence Allowance (MSA), as set out by the ICSC and the United Nations Secretariat, respectively. These are published as formal documents.

277. **In paragraph 173**, the Board noted the several instances in which UNICEF had deviated from United Nations instructions regarding staff entitlements, confirmed its recommendation on full compliance (see para. 257 above) and recommended that UNICEF comply with United Nations staff rule 112.2 and further liaise with the United Nations Secretariat on the matter.

278. UNICEF is of the view that the application and administration of staff entitlements are within the broad framework of the United Nations Staff Regulations and Rules, taking into account the operational flexibility required to meet the overall goals and objectives of the organization.

279. **In paragraph 176**, the Board recommended that UNICEF comply with the human resources manual instruction on the issuance of a yearly report on consultants.

280. UNICEF will reactivate annual reporting on consultants. The report for 2003 is being compiled and is due for release.

281. **In paragraphs 12 (j) and 181**, the Board recommended that UNICEF comply with its instructions by improving its monitoring of consultant contracting, expenditure and evaluation and by taking appropriate steps against cases and patterns of non-compliance with instructions.

282. Administrative instruction CF/AI/1004-009, on the revised comprehensive policy on consultants, was issued by the organization on 19 March 2004. This policy

clearly sets out the requirements for the issuance of consultant contracts. The policy, among other things, stresses that consultants should not be used to perform regular staff functions. The authority to manage consultants is delegated to heads of office and divisional directors, who are accountable for their areas of work. Compliance with human resources policies and procedures is built into the organization's oversight and audit mechanisms.

283. **In paragraph 184**, the Board recommended that UNICEF implement without delay a database providing reliable statistics on training and introduce an appropriate training performance evaluation system.

284. As regards the database training statistics, the numbers of staff attending courses or completing certified self-directed courses and the numbers of meetings held by the Office Learning Committee have been included in the 2003 annual reporting guidelines for all offices.

285. On the evaluation of training, all courses and workshops held undergo an in-built post-event evaluation exercise (a standard form is available to all), and guidelines for both the planning and evaluation of training and learning events and activities are posted on the Learning Web, and are readily accessible. All offices are encouraged to follow these procedures.

286. **In paragraphs 12 (k) and 188**, the Board reiterated its recommendation that UNICEF improve its data processing in order to efficiently support early supply planning.

287. The Supply Division continues to work with the Information Technology Division to enhance the Cognos cube to include missing information which will further improve the supply planning process.

288. **In paragraph 192**, the Board recommended that UNICEF refrain from entering into agreements that would give an unfair competitive advantage to one supplier and lead to the risk of late delivery.

289. UNICEF has taken note of the recommendation and will take it into account in future agreements. In addressing this concern, relevant clauses have been incorporated in the new in kind assistance policy, issued in executive directive CF/EXD/2004-12 dated 7 July 2004. In annex A to the directive, on assessing offers of in kind assistance, it is stated that UNICEF will accept such assistance as long as, in doing so, it does not provide the donor with an unfair commercial advantage over its competitors.

290. **In paragraph 199**, the Board recommended that UNICEF further improve Programme Manager System controls, such as on (a) passwords, (b) user groups, (c) segregation of duties and (d) access logs.

291. Management has taken note of the recommendation and will continue to work with the business owners of the Programme Manager System in order to make further enhancements in this area, as required.

292. **In paragraph 202**, the Board recommended that UNICEF (a) set realistic deadlines for its major information and communication technology projects and (b) allocate sufficient resources for all stages, such as gap analysis.

293. Management has taken note of the recommendation of the Board and will continue to incorporate key milestones and deadlines in project charters and high-

level work plans. This will be done in accordance with the guidelines defined by the existing governance mechanisms and project selection processes.

294. **In paragraph 204**, the Board recommended that UNICEF improve the budget tracking process for all information and communication technology projects in order to budget and monitor expenditure.

295. UNICEF will endeavour to implement the budget controls introduced in the guidelines for the budget for the 2004-2005 biennium (EXD/2003-2006), including in relation to the utilization of specific cost centres, in order to optimize the tracking and monitoring of allocated funds.

296. **In paragraph 216**, the Board commended UNICEF for providing impetus to inter-agency coordination and recommended that, in cooperation with other United Nations organizations, it further strengthen its coordination with various information and communication technology (ICT) boards or steering committees of the United Nations system, with a view to further benefiting from system-wide experience.

297. Management has taken note of the auditor's recommendation and will endeavour to further strengthen its coordination with the committees of the United Nations system.

298. **In paragraph 221**, the Board recommended that UNICEF adopt a common methodology with the other United Nations organizations for (a) determining the total cost of ownership of ICT, (b) determining the variations in cost in different parts of the organization, (c) determining whether or not outsourcing of ICT activities may be a viable option and (d) evaluating ICT projects, their benefits, costs and risks, based on best practices.

299. Management has taken note of the recommendation of the Board and will continue to use information technology standards and existing governance processes to implement it.

300. **In paragraph 224**, the Board recommended that UNICEF continue to establish and maintain ICT standards and operational practices in line with best practices, and share them, wherever feasible, with other United Nations organizations, with a view to reducing risks and costs.

301. Management concurs with the recommendation and will endeavour to share UNICEF best practices in the context of its response to the recommendation on strengthening coordination (see para. 296 above).

302. **In paragraph 226**, the Board recommended that UNICEF subject all significant information technology projects to a post-implementation audit.

303. Management has taken note of the recommendation and, based on the activities mentioned in paragraph 225 of the report of the Board, UNICEF will look, within its existing financial and project frameworks, at the feasibility of a post-implementation audit.

304. **In paragraph 231**, the Board recommended that UNICEF endeavour to improve the consistency of its data standards and policies in conjunction with other United Nations entities.

305. Management concurs with the recommendation and will continue its collaboration with United Nations agencies in the relevant areas of information management standards.

306. **In paragraph 233**, the Board recommended that UNICEF join other United Nations organizations in instituting ICT project peer reviews, with a view to limiting in the long term the cost of a multiplicity of solutions responding to similar needs.

307. Management has taken note of the recommendation and wishes to note that, notwithstanding the diversity of the mandates, business models, geographical distribution and office structures among United Nations agencies, UNICEF will endeavour to continue to share the relevant ICT best practices with organizations of the United Nations system.

308. **In paragraph 235**, the Board was of the view that, given the maturity of UNICEF processes and its reliance on best practices and independent benchmarks, UNICEF could more proactively contribute to the development of ICT synergies with other entities of the United Nations system, with a view to limiting costs through sharing lessons learned, procurement and activities.

309. Management has taken note of the commendation and recommendation and will endeavour to continue to share UNICEF best practices in ICT with the United Nations family.

310. **In paragraph 239**, the Board recommended that UNICEF negotiate (a) a new agreement for its Innocenti Research Centre and (b) the alignment of its planning and budget cycles with standard UNICEF cycles.

311. Action is under way in regard to both recommendations. The need for a new or updated agreement has been discussed with the Government of Italy, both in Italy and with the Italian delegation to the UNICEF Executive Board. Discussions are ongoing with the Innocenti Research Centre, the Programme Funding Office and the Government of Italy, with a view to possible modification of the terms of the agreement in connection with its renewal for the period beginning in 2006. The three-year programme cycle of the Centre is linked to the three-year term of agreement with the Government of Italy. UNICEF is exploring options for enhanced alignment with the UNICEF programme and budgetary cycles and processes, taking into account the cycle of the agreement with the host Government.

312. **In paragraph 244**, the Board recommended that UNICEF (a) put in place at its Innocenti Research Centre a more competitive selection process for consultants, (b) submit all financial commitments above $20,000 to its Contract Review Committee and (c) pay more attention to the geographical balance of consultant recruitment.

313. Action has been completed on these recommendations. Following reviews and discussions, updated guidance on service contract (consultancy) procedures was prepared, emphasizing competitive selection. The guidance has been distributed and will be discussed with all staff in meetings and training sessions. Compliance with the applicable rules and regulations for competitive selection is being further reinforced by management, including through staff training, the discussions of the Contract Review Committee and the regular review of contract submissions. The database of consultants maintained by the Centre is under review and is being

updated, to ensure a strong pool of consultants for competitive selection. During the period from December 2003 to the end of June 2004, all consultants were selected through competitive review. All contract submissions are reviewed on a regular basis to ensure compliance with financial regulations and rules, which contain provisions for their review by the Centre. Geographical information is included in contract documentation. As an element of the updated procedures for service contracts, geographical balance is noted and monitored as a consideration in the review of qualified consultancy candidates for the provision of specialized expertise.

314. **In paragraph 247**, the Board recommended that UNICEF review the Innocenti Research Centre distribution system and current contract.

315. The Innocenti Research Centre has completed its review of its distribution system and current contract. Follow-up is substantially completed, with conclusions to be implemented by October 2005.

316. **In paragraph 249**, the Board recommended that UNICEF (a) conclude basic cooperation agreements according to the 1992 standard in all countries, (b) obtain full compliance with the Convention on the Privileges and Immunities of the United Nations and (c) implement the basic cooperation agreements or renegotiate as appropriate.

317. As stipulated in the Programme Policy and Procedures Manual (and noted by the auditors), UNICEF management will continue to stress the priority of concluding the standard basic cooperation agreements in order to ensure compliance with critical clauses, such as those concerning immunities and privileges and the contribution of host country Governments to supporting and facilitating programme operations.

318. **In paragraphs 12 (l) and 253**, the Board recommended that UNICEF continue to improve (a) the timeliness of the submission of donor reports and (b) the accountability of regional offices for quality control of donor reports.

319. Excellence in reporting performance is of critical importance to UNICEF and will be followed up on a regular basis with all holders of programme budget allotments, within the framework of accountability in the organization.

320. **In paragraph 255**, the Board recommended that UNICEF, in compliance with the announcement made to the Executive Board in 1998, update its communication manual. The Administration informed the Board that it expected to issue a new communication manual in the second half of 2004.

321. The Division of Communications is developing an electronic Intranet site containing all UNICEF communication guidance, which will be continually updated. The site will be launched late in 2004 and will include completely revised guidance.

322. **In paragraph 259**, the Board recommended that UNICEF (a) improve its monitoring of communication activities and (b) use the new field office reporting system to monitor the cost and implementation of its communication strategy, including in connection with publications.

323. The Division of Communications did collect and analyse information on UNICEF, using information from the country office annual reports for 2003, which

included information on publications and publication costs. The Division will continue to further refine the monitoring process in future years' reporting and make use of other internal reporting tools and mechanisms, as appropriate. The Division is also making extensive use of electronic communication tools to coordinate communication work and share information and results.

324. **In paragraph 263**, the Board recommended that UNICEF review its overall anti-fraud policies and tools and update its financial circular on fraud.

325. UNICEF will review its overall anti-fraud policies and tools. The revision of the financial circular on fraud will be included in the work plans of the relevant divisions for 2005.

V. United Nations Relief and Works Agency for Palestine Refugees in the Near East

326. The actions taken or to be taken to implement the recommendations of the Board of Auditors in the report on the accounts of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) for the biennium ended 31 December 2003[5] are set out below. The Commissioner-General of UNRWA is ultimately responsible for the implementation of the recommendations, in conjunction with the divisional directors.

327. **In paragraph 29 of its report**, the Board recommended that UNRWA consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNRWA should revert to paragraph 6 of General Assembly resolution 57/278 A, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.

328. UNRWA will ensure adequate disclosure, in its next published financial report, of the items found to be related to its financial operations. Adequate information about all these issues is available in the annual report of the Commissioner-General to the General Assembly, the UNRWA biennial budget submission and other publications.

329. **In paragraph 36**, the Board recommended that UNRWA consider: (a) revising its financial regulations and rules to regularize the pre-financing of projects under specified conditions; (b) maintain adequate audit trails if rules allow for the pre-financing of funds; and (c) continuously monitor the impact of pre-financing of projects on working capital and cash flow requirements.

330. The Agency has, on occasions and under tight control, allowed the advance allotment of funds to certain projects, when its project cash position permitted, in order to expedite project implementation. Financial regulations and technical budget instructions will be reviewed during the current biennium in respect of that practice.

331. **In paragraph 41**, the Board recommended that UNRWA: (a) not process transactions occurring after the end of the biennium through the cashbook; (b) apply accrual accounting to transactions that relate to the current biennium but came to management's attention only after the end of the biennium; and (c) record adjusting journal entries for the purposes of accurately preparing the financial statements.

332. UNRWA will amend the next biennium closure instructions to prevent a recurrence of this practice.

333. **In paragraph 44**, the Board reiterated its recommendations that UNRWA continue its efforts to recover the outstanding tax reimbursements and that it make further appeals to the relevant authorities to fully accept the tax-exempt status of the Agency.

334. This is an ongoing activity. During the biennium 2002-2003, the Agency was able to achieve substantial progress in the recovery of overdue reimbursement of taxes, reducing the amount of value-added tax (VAT) outstanding from Governments, from $20.96 million to $13.86 million. Efforts to recover outstanding amounts and representations regarding the tax-exempt status of the Agency continue to be made by both field offices and headquarters, involving correspondence and meetings with the relevant authorities up to the highest level.

335. **In paragraph 47**, the Board recommended that UNRWA should examine the discrepancies between the value cards and general ledger and take the steps necessary to reflect asset balances accurately in the notes to the financial statements. The Board further recommended that UNRWA adjust note 14, Other fixed assets, by $4.7 million to reflect the differences in asset values.

336. The Agency has not commenced the write-off process for these discrepancies since it expects that the implementation of the fixed asset module, which is in progress, will resolve the significant differences. On its completion by December 2004, remaining differences will be written off, as recommended.

337. **In paragraph 51**, the Board reiterated its recommendation that UNRWA, in conjunction with United Nations Headquarters, review the funding mechanism and targets for end-of-service and post-retirement benefit liabilities.

338. The Agency does not provide any post-retirement benefits and has no liabilities in this connection. Staff separation costs are charged to the period in which payment is made. Future payments will be funded from the respective budgets. Funding separation entitlements arising from a future non-renewal of the mandate of the Agency will be considered within the overall context of the political settlement of issues in the region.

339. **In paragraph 58**, UNRWA agreed with the Board's recommendation that it update the treasury technical instructions to provide for procedures for the evaluation and addition of new classes of financial instruments to the specified investment categories and to align those procedures to the risk profile of the Agency.

340. All treasury technical instructions will be revised by the Comptroller during the current biennium in respect of recommendations contained in paragraphs 58, 74, 77, 80 and 86 of the report of the Board.

341. **In paragraph 60**, UNRWA agreed with the Board's recommendation that it develop terms of reference for the Investment Review Committee.

342. Proposals for the terms of reference for the Investment Review Committee will be submitted to the Commissioner-General during the current biennium.

343. **In paragraph 68**, the Board recommended that UNRWA develop further its donor base.

344. UNRWA is making efforts to broaden its donor base and has allocated sufficient resources to achieve this objective while recognizing the budgetary constraints of donor countries and competing demands from elsewhere. An office has been opened in the United Arab Emirates to improve representation with Gulf donors.

345. **In paragraph 101**, the Board recommended, and UNRWA agreed: (a) to reassess the representation and size of the Microfinance and Microenterprise Programme Advisory Board, with the overall objective of improving effectiveness and transparency; and (b) to expand the terms of reference of the Advisory Board to include the term of membership, disclosure of conflicts of interest and remuneration benefits.

346. The Director of the Microfinance and Microenterprise Programme will place the item on the representation and size of the Advisory Board before the Board at its meeting to be held late in 2004, so that members may discuss and make a recommendation on the matter to the Commissioner-General. The Programme and its Advisory Board will also discuss the terms of reference of the Board and related issues and make recommendations thereon to the Commissioner-General, who will incorporate any decision in an amendment to organizational directive No. 25.

347. **In paragraph 103**, UNRWA agreed with the Board's recommendation: (a) to provide staff with direct access to financial information on the new Financial Management System; (b) to determine an appropriate level of access to be granted to the staff as well as the relevant functionalities; and (c) to provide staff with adequate training on the new Financial Management System.

348. The issue of access to the financial modules identified during the audit has been resolved. Additional training requirements will be addressed during the current biennium.

349. **In paragraph 113**, UNRWA agreed with the Board's recommendation: (a) to change the order of the financial statements of the Provident Fund to reflect the statement of net assets first, followed by the statement of financial performance; and (b) to disclose additional information such as the benefits paid to members upon their withdrawal from the Fund.

350. The sequence of presentation of the financial statements will be aligned to the international standards. The information regarding the benefits paid to members upon withdrawal from the Fund was mentioned in note 1 of the notes to the Provident Fund financial statements, however, further elaboration will be provided in the future.

351. **In paragraph 116**, the Board recommended that the Provident Fund: (a) expedite the finalization of a consolidated set of regulations and rules governing the Fund to enable members to have a single point of reference when dealing with Provident Fund matters; (b) address the dissolution of the Provident Fund, although the financial statements of the Fund are prepared on a going concern basis; and (c) undertake an evaluation to benchmark its draft regulations and rules against the Regulations and Rules of the United Nations and international best practices.

352. The consolidated set of regulations and rules (organizational directive) governing the Provident Fund, along with the terms of reference for the Fund secretariat, are expected to be finalized before the next meeting of the Provident

Fund Committee, on 22 November 2004. This task will include updating the current terms of reference for the Provident Fund Committee and the Investment Advisory Committee, as recommended by the Board of Auditors. The matter of dissolution of the Fund will be taken into account in the organizational directive, and the Provident Fund organizational directive will be benchmarked against the rules and regulations of the United Nations Joint Staff Pension Fund, as well as Provident Fund and Pension Fund best practice.

353. **In paragraph 125**, given the specialized nature of the Provident Fund's activities, the Board recommended that UNRWA revise the terms of reference of the Provident Fund Committee to provide for a minimum number of years that representatives may serve on the Committee.

354. UNRWA agreed that this recommendation will be included in the new directive as a recommended practice for members.

355. **In paragraph 128**, UNRWA agreed with the Board's recommendation that it provide training in retirement funding management to members of the Provident Fund Committee. The Board also recommended that newly elected members of the Committee be required to attend such training courses.

356. The training seminars now include topics relating to retirement management. All new members of the Provident Fund Committee will be invited to participate in the seminars.

357. **In paragraph 134**, the Board recommended, and both UNWRA and the Provident Fund agreed, that the Fund should: (a) develop formal policies and procedures addressing underperformance by fund managers and incorporating defined dates and milestones for the evaluation of fund managers' performance; and (b) develop tender procedures that would, inter alia, regulate the awarding of contracts to fund managers.

358. The policies and procedures for addressing underperformance, the corrective action to be taken against underperforming fund managers and the tendering procedures for hiring fund managers are all available and are always observed by UNRWA. These procedures are in conformity with UNRWA rules and regulations and industry best practice. These procedures were properly developed and monitored by the Provident Fund secretariat and governing committees. UNRWA will gather together and incorporate all of these practices in the Provident Fund directive.

359. **In paragraph 141**, UNRWA and the Provident Fund agreed with the Board's recommendation that the Fund follow up on all loans granted in order to ensure that loans are used for the purposes disclosed in loan applications.

360. The Agency has tightened procedures and loan applications have been amended to ensure that the necessary supporting documentation is provided. Training and educational meetings are being held on a regular basis. The finance and human resources systems are extensively used to validate and control the loans.

361. **In paragraph 145**, the Board recommended that UNRWA formalize an accurate calculation of the average balance of members' Fund credits.

362. Both current month contributions and current month loan repayments are excluded from members' Fund balances for the calculation of the average balance.

Transactions representing lump-sum loan repayments, loan disbursements and withdrawals are treated as being made at the beginning of the month and are included in the calculation of the average balance. Since interest is not calculated on a daily basis, and the aforementioned calculation is applied consistently, it is believed to be fair and accurate.

363. **In paragraph 150**, the Board recommended that UNRWA consider including external members on its Audit and Inspection Committee.

364. The Audit and Inspection Committee will consider this recommendation by December 2004, and make appropriate recommendations to the Commissioner-General.

365. **In paragraph 155**, the Board recommended that UNRWA expand the terms of reference of both the Audit and Inspection Department and Audit and Inspection Committee to include reviews and monitoring of reports issued by all auditors and evaluation teams.

366. The Audit and Inspection Committee will deliberate on this issue by December 2004 and make a recommendation to the Commissioner-General.

367. **In paragraph 158**, UNRWA agreed with the Board's recommendation that it consider expanding the terms of reference for the Audit and Inspection Committee to include a review of the presentation and disclosure of the financial statements of UNRWA.

368. The Audit and Inspection Department, in consultation with the Chair of the Audit and Inspection Committee, will review the terms of reference of the Committee by December 2004.

369. **In paragraph 181**, UNRWA agreed with the Board's recommendation that it monitor vacant posts and provide regularly updated information on the progress made in filling them, as well as undertake a continuous evaluation of the need for the posts.

370. An agency-wide exercise is being undertaken to evaluate vacancies in area posts with a view to establishing whether or not such long-standing vacant posts are still needed. UNRWA has improved its recruitment processing time, which is now within the United Nations Secretariat target of 120 days.

371. **In paragraph 185**, UNRWA agreed with the Board's recommendation to formalize the process of succession planning.

372. UNRWA intends, during the biennium 2004-2005, to improve the quality and quantity of training provided to staff members and increase career opportunities to existing staff members by maximizing the use of internal recruitment. Similarly, supervisors and managers will be encouraged to provide coaching and mentoring to staff members through in-house and on-the-job professional development. Furthermore, a new division responsible for human resources planning and development was created in May 2004. It is expected that this division, once staffed and fully operational, will embark on systematic staff development and succession-planning programmes.

373. **In paragraph 189**, the Board recommended that UNRWA consider initiating personal development plans.

374. UNRWA is still considering whether or not to introduce an objective-based performance appraisal system. The revision of the performance evaluation reporting to provide for recording of discussions relating to training needs and personal development plans will be expedited. UNRWA concurs with the need to evaluate training in order to assess its contribution towards the professional development and growth of its staff members. In the absence of a qualified training officer, this process has not been undertaken. UNRWA plans to recruit a training officer for this purpose.

375. **In paragraph 192**, UNRWA agreed with the Board's recommendation that it expedite the implementation of the Human Resources Management and Payroll System leave module so as to achieve consistency across the organization.

376. Initial testing of the annual and sick leave subscreens has been undertaken. Once the results of the testing are confirmed by the Project Manager of the System, final testing will be conducted with a view to putting the annual and sick leave module into operation.

377. **In paragraph 200**, the Board recommended that UNRWA: (a) compile, on a periodic basis, a report containing details of all expenses incurred for training purposes as well as an assessment of whether the training objectives and needs have been met; and (b) investigate the use of distance-learning techniques.

378. A new section has been established to assume responsibility for the planning, organization, implementation and evaluation of training activities to assess whether objectives have been met, and to monitor costs and ensure that appropriate ratios are analysed. A training needs analysis was completed in December 2003 and a training plan based on the stated needs and skill requirements is in the process of being compiled. UNRWA is reviewing the educational assistance programme so that a consolidated policy on educational assistance and distance-learning can be further developed and integrated, as appropriate.

379. **In paragraph 206**, UNRWA agreed with the Board's recommendation that it conduct a study on the use of bar coding, hand-held scanners and the consequent computerization of record updates. The Board reiterates its recommendation that UNRWA implement the asset module included in the financial management system as a matter of urgency.

380. The fixed-assets module will be implemented at the end of 2004. The use of bar coding and hand-held scanners for the tagging and recording of assets will be investigated during 2005.

381. **In paragraph 210**, the Board recommended that UNRWA continue to review the supplier database on a regular basis in order to ensure that it is valid, accurate and complete.

382. The Procurement and Logistics Division of UNWRA undertook a review of all suppliers in the system and validated their data and details. As a result, 139 suppliers were removed from the list. The Division reviews and updates the supplier database in an ongoing process that occurs throughout the year, with a view to compiling a list of suppliers that contains the "best of the best" in regard to quality of service and performance.

383. **In paragraph 213**, UNRWA agreed with the Board's recommendation that it expedite the process of approving the information and communication technology

strategic plan. UNRWA also agreed to update the plan on a continuous basis to provide for changing circumstances in respect of requirements of UNRWA and technological advances.

384. The Information Systems Department has finalized the plan which will be presented to management for approval before the end of 2004. Once approved, the plan will be monitored and updated as needed.

385. **In paragraph 222**, the Board recommended that UNRWA consider implementing performance-monitoring reports in the computer server environment in order to remain abreast of any errors or areas of weakness in that environment.

386. Procedures for basic monitoring of the computer server environment are already in place. UNRWA will continue to enhance these procedures, utilizing the built-in tools and by researching the market for other tools that may be available.

387. **In paragraph 228**, the Board recommended that UNRWA prepare and implement information communications technology quality-assurance policies and procedures.

388. UNRWA is addressing these matters as part of the ongoing activity to develop a systems development life-cycle methodology, including an internal auditing function within each project. The methodology is currently being developed and tested, with a target date for completion before the end of 2004.

VI. United Nations Institute for Training and Research

389. The actions taken or to be taken to implement the recommendations of the Board of Auditors in the report on the accounts of the United Nations Institute for Training and Research (UNITAR) for the biennium ended 31 December 2003[6] are set out below. The Executive Director and Finance and Administrative Officer are responsible for implementing the Board's recommendations.

390. **In paragraphs 12 (a) and 23**, the Board recommended that UNITAR take appropriate steps to find a viable solution for the funding of its General Fund expenditures, as recommended by the General Assembly, and UNITAR agreed with the Board's recommendation.

391. UNITAR has showed progress in the first half of 2004, with income in excess of expenditure. This is due to the expansion of the special-purpose grant projects and consequent income from programme support costs. Voluntary contributions have also risen in 2004. UNITAR will continue these efforts.

392. **In paragraph 28**, while commending UNITAR for the establishment of an annual leave and repatriation reserve, the Board recommended that UNITAR consider setting up an operating reserve in respect of its current needs.

393. UNITAR maintains its position on this issue. The creation of a reserve is considered overprudent and not in the best interests of UNITAR, as a cash flow problem would be created, resulting in each programme's being cut back by 15 per cent; the funds would be returned to the donors, which in turn could cause reductions in future funding. In fact, as part of the ongoing review of trust fund reform at United Nations Headquarters, the relevant administrative instructions are under review and the 15 per cent guideline may also be revised.

394. **In paragraph 32**, the Board recommended that UNITAR account for income in compliance with accounting policies set in the notes to its financial statements.

395. UNITAR will make every effort to ensure that deferred income is recorded correctly at the close of the biennium 2004-2005.

396. **In paragraphs 12 (c) and 36**, the Board recommended that UNITAR comply fully with standard 34 for accounting for contributions in kind by reporting the value of all contributions received and ensuring proper documentation of their valuation, and that it consult the United Nations Secretariat on the valuation of conference services, and UNITAR agreed with the Board's recommendation.

397. UNITAR will make every effort to ensure that contributions in kind are recorded correctly at the close of the biennium 2004-2005.

398. **In paragraph 38**, UNITAR agreed with the Board's recommendation to sign an agreement with the United Nations Office at Geneva listing the nature and the rates of services provided to the Institute, and to consult with the Office on this matter.

399. UNITAR will consult with the United Nations Office at Geneva on this matter during the 2004-2005 biennium.

400. **In paragraph 48**, UNITAR agreed with the Board's recommendation to consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNITAR should revert to paragraph 6 of General Assembly resolution 57/278 of 20 December 2002, requesting "the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system", since better disclosure would be a step towards taking a proactive approach to the review requested by the General Assembly.

401. The recommendation is under implementation. In conjunction with United Nations Headquarters, UNITAR will consider additional disclosures in its future financial reports as appropriate, bearing in mind their usefulness and the information already provided through other reports.

402. **In paragraphs 12 (d) and 51**, the Board recommended that UNITAR consider defining a recosting policy as part of the formulation and monitoring of its budget, and UNITAR agreed with the Board's recommendation.

403. The recommendation is currently under implementation.

404. **In paragraphs 12 (e) and 56**, the Board reiterated its recommendation that UNITAR, in conjunction with the Administration of the United Nations and other funds and programmes, review the funding mechanism and targets for end-of-service and post-retirement benefit liabilities.

405. UNITAR has established the reserve for repatriation and accrued annual leave. This fund will be built up over six to seven years and then will fully provide for those liabilities. Building up the fund gradually is considered the most reasonable method to avoid any distortion of expenditure that would arise should the complete amount be charged in one period. The matter of after-service health insurance is a

global issue, across trust funds, and we await the outcome of the funding study currently being undertaken by United Nations Headquarters.

406. **In paragraphs 12 (f) and 69**, the Board reiterated its previous recommendation that, as the financial situation of the General Fund is still a matter of concern, UNITAR comply with its Statute by defining rules for admission to its core training programme and address urgently the issue of the discrepancies between the decline in contributions to its General Fund and the increase in industrialized countries' participation in its programme.

407. The Board of Trustees considered this issue during its last session. It was decided to give priority to candidates from contributing countries, but not to exclude systematically those from non-contributing countries.

408. **In paragraph 73**, UNITAR agreed with the Board's recommendation to increase its efforts to comply with its Statute and with the instructions regarding geographical distribution of staff.

409. The recommendation is under implementation. Fair gender and geographical distribution will be taken into account in the staff recruitment policy.

410. **In paragraphs 12 (g) and 77**, the Board recommended that UNITAR "comply as much as possible" (i) with its Statute and internal rules on the appointment and assignment of fellows, and (ii) with United Nations instructions on consultants, including by considering several qualified candidates for each consultancy assignment and appointment of fellows, and UNITAR agreed with the Board's recommendation.

411. UNITAR considers that it would be quite difficult to consider systematically qualified candidates when recruiting resource persons, just as it would be difficult for universities or teaching institutes to consider every time different candidates for each course to be offered. However, efforts will be made to comply as much as possible with the recommendation, it being understood that each programme coordinator has a roster of many potential candidates for each topic to be taught.

412. **In paragraph 80**, the Board recommended that UNITAR reconsider its current decentralized organization for administrative services to programmes, with a view to reducing the overall administrative costs.

413. Much consideration has been given to this issue. The administrative procedures are by and large unified. It appears doubtful, however, that the overall administrative costs could be reduced significantly, considering that most of the funds are project monies and that the administrative staff, in each programme, is already reduced to its minimum.

414. **In paragraph 82**, UNITAR agreed with the Board's recommendation to (i) review the current information and communication technology function to consider whether it is appropriately staffed, (ii) improve its cooperation with other United Nations organizations to further benefit from United Nations system-wide experience, and (iii) adopt precise terms of reference for its information technology committee.

415. UNITAR is currently reorganizing this area.

416. **In paragraphs 12 (h) and 85**, the Board recommended that UNITAR optimize more proactively the use of resources by cooperating further with other United

Nations entities, particularly those engaged in training and research, including online learning, and UNITAR agreed with the Board's recommendation.

417. UNITAR has been in contact with the United Nations University and the United Nations System Staff College to discuss e-learning. There have been no concrete results so far from these meetings; however, UNITAR will ensure that the matter is followed through.

418. **In paragraph 88**, the Board recommended that UNITAR develop, document and implement a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, in coordination with the Administration of the United Nations and the other funds and programmes to obtain the benefit of best practices, where available.

419. The matter is under investigation by UNITAR.

VII. Voluntary funds administered by the United Nations High Commissioner for Refugees

420. The actions taken or to be taken to implement the recommendations of the Board of Auditors as set out in the report on the accounts of the Office of the United Nations High Commissioner for Refugees (UNHCR) for the year ended 31 December 2003[7] are set out below.

421. **In paragraph 21**, the Board reiterated its recommendation that UNHCR, in conjunction with the United Nations Secretariat, review the funding mechanism for end-of-service and post-retirement benefit liabilities.

422. UNHCR believes that the issue should be addressed by the United Nations system as a whole. UNHCR will actively follow up on the report on possible measures to fund these liabilities over time, due to be submitted to the General Assembly for its consideration.

423. **In paragraph 33**, the Board recommended that UNHCR consider disclosing items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNHCR should revert to paragraph 6 of resolution 57/278 A of 20 December 2002, by which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly.

424. UNHCR recognizes the emerging trend in the United Nations system whereby financial statements cover areas that have traditionally not been reported on. UNHCR has in the past few years improved its financial reporting and disclosure policy, as seen in chapter I of the audited financial statements and part I of the annual programme budget. The latter, and various documents submitted to the Executive Committee of the High Commissioner's Programme, now contain social accounting information on human resources, composition of staff, rotation policy, safety issues and information technology matters. As for performance reporting,

UNHCR is making progress in introducing a results-based budgeting approach so that it can start results-based reporting.

425. A meaningful body of social accounting-related information is contained in various documents submitted to the Executive Committee and from various other information sources, including the United Nations Extranet. UNHCR believes that the scope and level of disclosure should be assessed in terms of all such sources, and keeping in mind that new disclosure and reporting requirements would entail additional costs, while staff resources in the Division of Financial and Supply Management remain very limited. That being said, UNHCR will continue its policy to improve financial and budgetary transparency as the basis for its enhanced accountability.

426. **In paragraphs 12 (a) and 36**, the Board recommended that UNHCR monitor accurately its commitments against future financial periods.

427. UNHCR agrees that the introduction of PeopleSoft software will improve its ability to record commitments against future periods. Pending the introduction of PeopleSoft to the field, offices there will be reminded that they should ensure accurate recording in the Financial and Management Information System of commitments against future financial periods. UNHCR year-end instructions to field offices will emphasize this in particular.

428. **In paragraph 40**, UNHCR agreed with the Board's recommendation to charge exchange gains and losses on contributions to the appropriate funds, and planned to implement a consistent practice in 2004.

429. UNHCR is revising its internal procedures. The accounts for 2004 will reflect a consistent practice.

430. **In paragraph 46**, the Board reiterated its recommendation that UNHCR continue to monitor the adequacy of the level of its non-programme expenditures.

431. UNHCR has reviewed the classification of expenditure by programme, programme support, and management and administration. The preliminary result is that, for the unified budget as a whole (the annual programme budget and supplementary budgets), the respective shares of programme support and management and administration have remained stable, at 26 to 28 per cent, during the last four years, the balance being for programmes (72 to 74 per cent), as indicated in the table. UNHCR will continue to closely monitor the level of non-programme expenditures.

Table
Breakdown of expenditure of the Office of the United Nations High Commissioner for Refugees

Category	*2000*	*2001*	*2002*	*2003*
	(percentage)			
Management and administration	5	4	4	5
Programme support	23	24	22	23
Programme	72	72	74	72
Total	**100**	**100**	**100**	**100**

432. **In paragraph 48**, the Board recommended that UNHCR continue efforts to recover the amount of $1,219,002 deposited in a bank based in Liberia.

433. UNHCR continues its efforts, both at the local and at headquarters level, to recover the funds in the bank based in Liberia.

434. **In paragraphs 12 (b) and 57**, the Board recommended that UNHCR monitor centrally the validity of its year-end unliquidated obligations, and UNHCR agreed with the Board's recommendation.

435. UNHCR will endeavour to strengthen the central monitoring and review of the validity of unliquidated obligations by year's end. This will initially involve a review of the amounts and support documentation submitted by field offices and Headquarters divisions to ensure compliance with paragraphs 38 to 40 of the United Nations system accounting standards. It is envisaged that the total of unliquidated obligations will be supported by a sample documentation review, validating 60 to 70 per cent of the total balance-sheet value.

436. **In paragraph 60**, UNHCR agreed with the Board's recommendation to align its accounting procedures for payables with the United Nations system accounting standards.

437. UNHCR has already modified its procedures for United Nations payables with immediate effect and is showing them as gross amounts, as per the United Nations system accounting standards.

438. **In paragraph 62**, the Board recommended that UNHCR review and reconcile long-outstanding payables to ensure that only valid payables are recorded in the accounts.

439. UNHCR has already cleared the balances in question and will endeavour to clear other payable balances outstanding for more than five years. UNHCR aims to have all balances up to the end of 2001 reconciled by the end of 2004.

440. **In paragraphs 12 (c) and 67**, the Board recommended that UNHCR correct its assets database in a timely manner and improve asset reporting by field offices.

441. The following actions have been taken in implementing the recommendation: (a) a physical check of all assets at Headquarters was conducted in early 2004, and the records were updated and corrected; (b) quality control of assets data in the field has been carried out by the Logistics Support and Asset Management Section, Supply Management Service, Division of Financial and Supply Management. The process will continue until a satisfactory level of compliance is reached. To supplement the quality control of the assets data, the Section is planning to undertake a training programme during the last quarter of 2004 and during 2005 for asset management focal points in selected countries; and (c) a memorandum was issued to all field offices in March 2004 requesting that by mid-June 2004:

(i) They review holdings of assets that have reached the end of their serviceable lives or are damaged and uneconomical to repair, with a view to disposing of them;

(ii) They recommend surplus assets for redeployment and report to their respective desks and supply management services;

(iii) Field offices phasing down programmes/operations review their total available assets and the condition thereof, and propose appropriate action to the Local or the Headquarters Asset Management Board, as appropriate.

The Headquarters Asset Management Board has been receiving, and responding as necessary to, reports from Local Asset Management Boards on the implementation of this instruction.

442. **In paragraphs 12 (d) and 74**, the Board recommended that UNHCR take further steps to obtain and verify in a timely manner all subproject monitoring reports from implementing partners, and UNHCR agreed with the Board's recommendation.

443. In order to further improve the timely receipt and processing of the subproject monitoring reports, UNHCR has constituted a working group to examine the issue. The working group will propose concrete measures to senior management by the end of 2004.

444. **In paragraph 76**, the Board reiterated its recommendation that UNHCR continue to assess the qualifications of those implementing partners whose accounting systems and internal controls are not adequate.

445. The UNHCR Manual (chap. IV, sect. 5.1), under item 3 (choice of an implementing partner), makes reference to four basic conditions to be met in order to be considered by UNHCR as an implementing partner. One of these basic conditions is the ability to demonstrate financial reliability through the production of annually audited financial statements (item 3.3.c). To ensure that these provisions are effectively implemented, a working group was established in 2002 by the Oversight Committee, with the intention of presenting proposals on the issue of accreditation, selection and performance appraisal to the Operational Policy Committee by the fourth quarter of 2004. In the meantime, UNHCR has introduced a new measure for implementing partners audit certification, under IOM 61-2003/FOM 61-2003 of 8 December 2003. Projects implemented during 2004 by international non-governmental organizations, and for which there will be an aggregate value of $300,000 in a given situation or country, will be audited by independent audit firms contracted directly by UNHCR. The audit firms are to issue audit certificates for the 2004 projects in 2005, and this would facilitate assessment of accounting systems and internal controls of the UNHCR implementing partners.

446. In paragraphs 12 (e) and 96, the Board recommended that UNHCR fully take into account, in its change-management initiatives, the lessons learned from its Africa Bureau decentralization/recentralization process.

447. The recommendation has been duly noted. UNHCR will take into account in any future change-management initiatives the lessons learned from the Africa Bureau decentralization/recentralization process, which took place between 1999 and 2002. The lessons were recently applied in the improvement of managing regional global functions following a regional function review carried out by the Organizational Development and Management Section, Division of Financial and Supply Management.

448. **In paragraphs 12 (f) and 119 (a)**, the Board recommended that UNHCR continue its efforts to improve the precision of the statistical inputs on refugees, and **in paragraphs 12 (g) and 119 (b)**, the Board recommended that UNHCR obtain as

much data as possible through refugee registration, and UNHCR agreed with the Board's recommendations.

449. UNHCR will continue to strengthen the quality of the official statistical reporting by UNHCR country offices, bearing in mind the limited resources available. For instance, the 2002 *Statistical Yearbook* (forthcoming) provides more detail on the sources and methods of data collection. From 2004 onwards, estimates will be collected on the number of refugees and persons of concern to UNHCR who are registered, with a view to monitoring registration coverage over time.

450. Population estimates are available for UNHCR assistance categories (new arrivals; UNHCR-assisted refugees; voluntary repatriation departures; resettlement departures; naturalization). The introduction of the camp indicator report towards the end of 2003 has added significant detail to the profile of beneficiaries in refugee camps. A discussion within the Division of Operational Support will be initiated on how to systematically record, monitor and retrieve beneficiary figures in UNHCR project descriptions. The results of this discussion will be specifically raised in the context of the Management Systems Renewal Project (MSRP). UNHCR has embarked on a serious effort to enhance its procedures, tools and systems for registration and population data management activities.

451. The new handbook for registration was provisionally released in September 2003; a final version will be published in late fall 2004. The final version should include additional information on (a) procedures and techniques for continuous registration and verification to keep registration data up to date and to minimize reliance on large-scale annual headcount exercises, which are no longer deemed compatible with the role and the protection mandate of UNHCR; and (b) techniques and tools for counting, estimation and registration in the initial stages of complex humanitarian emergencies.

452. The new registration software has been completed in version 1.0 and roll-out has started, together with improved registration and population data management procedures. By the end of 2004, the new registration application (ProGres) will be installed and in use in some 20 country operations. In 2005, ProGres will be implemented in an additional 40 country operations. With the adoption of Executive Committee Conclusion No. 91 (LII) of 2001, individual photographs were included in the minimum registration data set. Photo capture is already commonplace in many operations. Digital photography, which allows for the storage of a photograph together with the registration data, is now more standard in UNHCR operations. To support this, ProGres includes enhanced photo capture functionality. The full impact of these improvements and enhancements, as well as those mentioned in paragraph 122 of the Board's report, is yet to come; however, they have already allowed UNHCR to tackle outstanding problematic situations more systematically and to find sustainable solutions in the area of registration, documentation and population data management. The collection of baseline data on refugee situations is already based on registration in the vast majority of operations.

453. **In paragraphs 12 (h) and 138**, the Board recommended that UNHCR improve its coordination with other United Nations organizations on information and communication technology strategy and development.

454. UNHCR agrees with the recommendation and will continue to actively participate in the Inter-Agency Telecommunications Advisory Group, the

information and communication technology (ICT) networking group and the International Computing Centre Management Committee, as well as steering committees that facilitate interorganization coordination. During 2004, other United Nations agencies' experience in information technology (IT) strategy coordination and development will be sought, with the aim of revising and completing the UNHCR IT strategy, while bearing in mind the checklist suggested in paragraph 139 of the report of the Board.

455. **In paragraphs 12 (i) and 175**, the Board recommended that UNHCR review the coordination with software users for its information and communication technology developments and validate the calendar for field office deployment of its new information system after the shortcomings the Board identified have been solved.

456. UNHCR agrees with the recommendations. A formal system to register and follow up users' requests and complaints has been established. In addition, since the beginning of May 2004, an MSRP User Support Unit has operated in the UNHCR main office. As for the field deployment schedule, while the Governance Board validated the deployment calendar in April 2004, the schedule is currently under review by the newly appointed Director for MSRP and by the new Chief Information Officer, so as to establish a realistic field deployment plan.

457. **In paragraph 122**, the Board recommended that UNHCR (a) identify the expenditures related to its registration activities, with a view to setting related objectives and to monitoring their implementation, and (b) review the adequacy of the staffing in regard to the strategy to be implemented on statistics.

458. The possibilities for separately identifying expenditures related to registration will be examined in the context of MSRP during 2004. Funding for Project Profile is already carefully tracked in relation to set objectives and project implementation. UNHCR has expanded its network of registration support officers (as from 1 January 2005, Lusaka will be added to the present three regional hubs in Nairobi, Accra and Cairo). The regions not covered by the staff of the regional hubs will continue to be covered by the Senior Registration Officer in Geneva. Most of the support provided by these expert staff goes to the large and protracted operations where assistance is a major component of the protection strategy. UNHCR will review the various options for further strengthening human resources to improve the management of population statistics.

459. **In paragraph 125**, the Board recommended that UNHCR devote the necessary efforts and resources to implement its Project Profile within the planned time frame.

460. In 2004, UNHCR increased the size of Project Profile's budget and the staff devoted to its implementation. Project Profile finalized the development of version 1 of a new registration database application and began field training and implementation of the new registration standards and tools in 20 country operations, comprising over 40 field offices. This process is expected to continue at least through 2005, and adequate budgetary and staffing resources will be made available until it is completed.

461. **In paragraph 131**, the Board recommended that UNHCR closely monitor the management of its premises in the field and endeavour to further comply with the Secretary-General's United Nations House initiative.

462. UNHCR agrees with the recommendation. The management of field premises has two dimensions: efficient use of premises and provision of adequate security to staff and visitors. The responsibility to manage UNHCR field premises has been delegated to the UNHCR representatives, who are fully aware of the Secretary-General's United Nations House initiative as well as the need to enhance staff security in line with the minimum operating security standards. The field security arrangements have been reviewed by the recently established task force chaired by the Assistant High Commissioner. Taking into account the lifting of the five-year limit on the mandate of the Office and the changing global security environment, UNHCR will take measures to have a better global picture and monitoring of the management of premises in the field, including, within the resources available, centralization of information on all UNHCR premises in the field.

463. **In paragraph 142**, the Board recommended that UNHCR (a) review and develop the completeness of its information and communications technology strategic documents; and (b) benchmark them with other organizations of the United Nations system, in order to ascertain that its strategy properly delineates key alignment issues and objectives, the contribution of each project to these objectives and expected costs and benefits, as well as the main risks and technical challenges involved.

464. With the establishment of the Division of Information Systems and Technology, led by the Chief Information Officer, UNHCR will review its ICT strategies in 2004 to ensure that they align with UNHCR business requirements and objectives. In developing these strategies, strength, weakness, opportunity and threat analysis, environmental factors, risk and/or issues that will affect the successful implementation of the strategies will be included. UNHCR will benchmark the strategies with other United Nations humanitarian organizations. It is noted that the objectives, costs and benefits of proposed projects and initiatives in respect of ICT strategies should be clear.

465. In **paragraph 149**, the Board recommended that UNHCR review its cooperation with UNDP, with a view to achieving savings through greater synergy between the two similarly sourced major software developments, and UNHCR agreed with the Board's recommendation.

466. The MSRP leadership has already made multiple visits to New York to enhance coordination with UNDP. UNHCR will step up efforts to find efficiency savings through greater synergy. As UNHCR moves towards the start-up of the MSRP human resources and payroll modules, it will consider the applicability of developments already in place at UNDP.

467. **In paragraph 151**, UNHCR agreed with the Board's recommendation that it optimize more proactively the use of resources by cooperating further with other United Nations agencies towards such steps as (a) reducing in the long term the diversity of solutions for systems that are, by nature, not specific to its core mission, and (b) benefiting from lessons learned in such fields as data and communication security policies.

468. UNHCR will endeavour to find best practices within the United Nations system and other agencies prior to developing its own solutions. To facilitate this, UNHCR will request the United Nations ICT networking group to publish an

inventory of available systems that can be shared with other agencies. The United Nations Extranet could be a potential repository for this.

469. **In paragraph 154**, the Board recommended that UNHCR (a) adopt with the other organizations of the United Nations system a common methodology for determining the total cost of ownership of ICT, in order (b) to determine the variations in cost in different parts of the organization, (c) to assess whether or not outsourcing of ICT activities may be a viable option, and to evaluate ICT projects, their benefits, costs and risks, based on best practices.

470. While UNHCR agrees with (a) and (b) of the recommendation, it has already researched practices of other agencies but has not found any standard costing models that it could adopt. At the April 2004 meeting of the United Nations ICT networking group, UNHCR proposed that a standard methodology to derive total cost of ownership for IT projects/assets (TCO) be developed. At the initiative of UNHCR, a task force was set up to achieve this. It should be noted that the implementation of activity based costing, a precursor to TCO, would require a significant amount of resources and entail risks of its own. In respect of (c), UNHCR believes in outsourcing any of its IT activities that are non-core, and feasibility is constantly assessed. A more formal evaluation methodology will be developed to evaluate project proposals in terms of benefits, cost and risks.

471. **In paragraph 157**, UNHCR agreed with the Board's recommendation that it subject all significant ICT projects to a post-implementation audit.

472. UNHCR will draft a policy to this effect.

473. **In paragraph 160**, UNHCR agreed with the Board's recommendation to improve the consistency of its data standards and policies, in conjunction with other United Nations entities.

474. UNHCR recognizes that a common data architecture within the United Nations system will greatly improve inter-agency data transfer and thereby reduce cost. UNHCR raised this item at the April 2004 United Nations ICT networking meeting and had follow-up discussions with the United Nations Joint Staff Pension Fund. UNHCR and the Fund evaluated the possibility of electronic data sharing and transfer, using standard interfaces already developed for other agencies. A project was agreed and is currently under way. This will result in the transfer of data from Geneva to the Pension Fund's database in New York. This data transfer project is expected to be completed before the end of 2004.

475. **In paragraph 165**, the Board recommended that UNHCR research, in conjunction with other United Nations entities, opportunities for cooperation and rationalization in ICT procurement.

476. UNHCR raised this point at the ICT networking meeting in April. The United Nations Secretariat has recently completed a frame agreement with Microsoft that allows all United Nations organizations to benefit from licensing discounts. In addition, UNHCR has a frame agreement with Microsoft Switzerland, which also allows for bulk discounts. This frame agreement is also available for other United Nations organizations to take advantage of. While the two agreements are similar, there are also specific differences. United Nations organizations, including UNHCR, have the opportunity to select the agreement they wish to use depending on which product they need to purchase.

477. **In paragraph 167**, the Board recommended that UNHCR join other organizations of the United Nations system in project peer reviews, towards limiting in the long term the cost of the multiplicity of solutions answering similar strategies and needs.

478. UNHCR agrees with the recommendation. While no formal peer review process currently exists in the United Nations system, there are a multitude of sharing opportunities, through meetings, teleconferences and the like, where information is being informally shared. There are extensive opportunities throughout the United Nations IT community, via task forces and committees, where status reports and future planning are also shared more formally. UNHCR will actively participate in these forums.

479. **In paragraph 169**, the Board recommended, and UNHCR agreed with the Board's recommendations, that UNHCR assess actual staff skills in ICT strategy and organize appropriate training sessions.

480. UNHCR will assess actual staff skills and organize appropriate training sessions.

481. **In paragraph 177**, the Board recommended, and UNHCR agreed with the Board's recommendation, that UNHCR test any future data conversion in a dedicated environment.

482. UNHCR complied with best practice for conversion activities during 2003, and these activities were conducted in a separate environment. Because of the closure of the year in the legacy system, final conversion data was available only after going live. Here, reconciliation activities could be performed only in the production environment. Further conversion activities will be conducted in a separate environment.

483. **In paragraph 179**, UNHCR agreed with the Board's recommendation to document (a) the data conversion process, including all tasks and controls implemented, and (b) all the conversion discrepancies.

484. All aspects of data conversion have either been or will be fully documented.

485. **In paragraph 181**, the Board recommended, and UNHCR agreed with the Board's recommendation, that UNHCR improve its monitoring of Management Systems Renewal Project availability and batch processing.

486. Extensive monitoring is already taking place. For instance, system availability was 96.7 per cent for March 2004, the latest month for which data are available.

487. **In paragraph 183**, the Board recommended, and UNHCR agreed with the Board's recommendation, that UNHCR extensively review its Management Systems Renewal Project security policy on such items as access rights management and fraud prevention.

488. UNHCR will take the appropriate actions to implement this recommendation.

489. **In paragraph 185**, UNHCR agreed with the Board's recommendation to formally join, as appropriate, outside contracts, when using a common outsourcer with a third party.

490. UNHCR will take the appropriate actions to implement this recommendation.

491. **In paragraph 192**, the Board recommended that UNHCR develop, document and implement a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, in coordination with the Administration of the United Nations and other funds and programmes to obtain the benefit of best practices, where available.

492. UNHCR agrees with the recommendation and intends to develop measures under the guidance of the enhanced Oversight Committee. The strengthened investigation functions of UNHCR will also facilitate the process. Training in the application of the new code of conduct will be pursued. One related development in the United Nations system is that, during the recent meeting of the Finance and Budget Network of the High-Level Committee on Management, which UNHCR organized, the issue of fraud awareness was discussed (see CEB/2004/HLCM/12, 4 March 2004). The meeting established a working group that would develop a common framework for risk assessment and a common definition of fraud and produce a best-practice booklet on fraud control and prevention, as well as CD-ROM-based training materials. Staff from the legal and internal audit services of the United Nations agencies will be requested to participate in the working group. UNHCR will actively participate in the process.

493. **In paragraph 196**, the Board recommended that UNHCR review its policy on the referral of fraud cases to penal courts, with a view to developing a more dissuasive stance on fraud sanction.

494. UNHCR agrees with the recommendation and it will therefore recommend to the Secretary-General that fraud cases be referred to national courts if and when the elements mentioned in paragraph 194 of the report of the Board have been reviewed and considered appropriate to such proceedings.

VIII. Fund of the United Nations Environment Programme

495. The action taken or to be taken to implement the recommendations of the Board of Auditors as set out in the report of the United Nations Board of Auditors on the audit of the accounts of the Fund of the United Nations Environment Programme (UNEP) for the biennium ended 31 December 2003[8] are set out below.

496. **In paragraph 9 (a)**, the Board recommended that the Administration establish and review obligations in accordance with financial rules 105.7 and 105.9 and the United Nations system accounting standards.

497. UNEP agrees with the Board's recommendation. The Administration undertook a major exercise in May 2004 to close all the remaining 2001 unliquidated obligations. The administration received confirmation that the Integrated Management Information System (IMIS) will be modified to extend the automated closure of prior-year unliquidated obligations for fund type 4. The implementation of the recommendation depends on the United Nations Headquarters schedule for implementing IMIS modifications.

498. **In paragraph 9 (b)**, the Board recommended that the Administration recover, through payroll deductions, advances pertaining to staff members and that it take immediate action to properly account for advances paid to "other persons".

499. UNEP concurs with the Board's recommendation. The exercise of accounting for 2001 and 2002 travel advances is ongoing and is expected to be completed by the end of 2004.

500. **In paragraph 9 (c)**, the Board recommended that the Administration enforce the terms of agreement in respect of the timely liquidation of advances to implementing agencies.

501. UNEP accepts the Board's recommendation. The United Nations Office at Nairobi has established a practice whereby all advances to implementing agencies are reviewed before new advances are made. The recommendation is considered by UNEP/United Nations Office at Nairobi to be implemented.

502. **In paragraph 9 (d)**, the Board recommended that the Administration disclose in the notes to the financial statements the amount of non-expendable property "pending write-offs".

503. The Administration informed the Board that it would take steps to ensure that non-expendable property is correctly categorized in future financial statements.

504. **In paragraph 68**, the Administration agreed with the Board's recommendation that it (i) establish delivery dates on consultancy contracts; (ii) require consultants to submit progress reports and proof of accomplishments on completed phases as the basis for determining the amount to be paid; and (iii) ensure that both parties sign contracts prior to the effective dates.

505. The standard operational procedures for recruitment and management of consultants and individual contractors will be revised and updated to ensure that there is a mechanism in place to facilitate adherence to the audit recommendations.

506. **In paragraph 74**, the Board recommended that the Administration develop and implement (i) an information and communication technology strategic policy and (ii) policies on the acquisition and maintenance of information and communication technology.

507. The Administration informed the Board that the recommendation would be implemented in the context of the Office of Internal Oversight Services audit report on UNEP IT management. UNEP management will deliberate on that audit report in August 2004 in order to determine the best course of action to implement the audit recommendations of the Office of Internal Oversight Services and the Board of Auditors.

508. UNEP has concurred with the Board's recommendations contained in paragraphs 46, 48, 51, 55, 60, 62 and 70 of its report, and in all cases the recommendations either have been or are in the process of being implemented. The Chief of the Budget and Financial Management Service at the United Nations Office at Nairobi, in conjunction with the Senior Management Group of UNEP and the regional offices, is responsible for the implementation of the recommendations of the Board on the financial statements of UNEP.

IX. United Nations Population Fund

509. The actions taken or to be taken to implement the recommendations of the Board of Auditors in the report on the accounts of the United Nations Population Fund (UNFPA) for the biennium ended 31 December 2003[9] are set out below.

510. **In paragraph 33**, UNFPA agreed with the Board's recommendation to: (a) consider the disclosure of information in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNFPA should revert to paragraph 6 of General Assembly resolution 57/278, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly; (b) consider further improvements to the presentation and disclosure of financial statements; and (c) disseminate improvements made at other United Nations organizations through inter-agency mechanisms such as the High-Level Committee on Management.

511. UNFPA will continue to review the presentation of the financial statements for the biennium 2004-2005 to see where compliance with General Assembly resolution 57/278 with regard to governance structures, principles and accountability might be improved in an harmonized manner among the United Nations agencies. Wherever feasible and cost-effective, UNFPA will add to the financial statements in the areas noted in the recommendation.

512. **In paragraphs 12 (a) and 42**, the Board recommended that UNFPA: (a) conclude its reconciliation of the non-expendable equipment as a matter of urgency in order to ensure that opening balances entered into the Atlas system are correct; and (b) implement controls to ensure that the respective units verify the equipment in their possession on a regular basis, which should then be reconciled with the completed inventory listing.

513. UNFPA agrees with the Board's recommendation: (a) a 100 per cent physical asset count of UNFPA headquarters assets has been completed. Items previously tracked and identified in the UNFPA headquarters asset listing that now fall outside the present definition of an asset (specifically those falling below $1,000 unit acquisition value) were reported to the headquarters Property Survey Board meeting on 14 July 2004. Investigation of discrepancies between the physical count and the asset records continues and the findings will be submitted soon; (b) revised guidelines concerning asset management will be issued and staff validation of non-expendable equipment assigned to individuals will be undertaken in the next quarter.

514. **In paragraphs 12 (b) and 51**, UNFPA agreed with the Board's recommendation that it take action immediately to ensure the accuracy, completeness and proper control of non-expendable equipment in compliance with its directives.

515. By September 2004, UNFPA will issue guidelines to all UNFPA country offices and country technical service teams requiring the undertaking of a 100 per cent physical count of non-expendable equipment and will upload the information into the Atlas system.

516. **In paragraphs 12 (c) and 57**, the Board recommended that UNFPA, in conjunction with other organizations in the United Nations system: (a) investigate unreconciled balances with a view to resolving them expeditiousiy; and (b) develop procedures to resolve future inter-agency balances in a timely manner.

517. UNFPA has approached each of the agencies with which it has an ongoing financial relationship with the objective of providing guidance on revised funding and reporting requirements. It is hoped that by December 2004, all differences existing as at 31 December 2003 will have been reconciled.

518. **In paragraphs 12 (d) and 62**, the Board reiterated its recommendation that UNFPA, in conjunction with the Administration of the United Nations and of other funds and programmes, review the funding mechanism and targets for its liability for end-of-service and post-retirement benefits.

519. UNFPA will continue to work with the United Nations and other funds and programmes in reviewing the funding mechanism for its liability for end-of-service and post-retirement benefits.

520. **In paragraph 66**, the Board recommended that UNFPA continue to closely monitor hedging transactions and obtain adequate information from UNDP in a timely manner, in order to ensure proper accounting of transactions.

521. UNFPA has instituted a process of monitoring transactions made for UNFPA by UNDP in the areas of treasury, investments and cash management. Investments and hedging positions are reviewed on a quarterly basis at the investment management meetings attended by representatives of the UNDP Treasury Division and the UNFPA Division for Management Services. Based on those meetings, a treasury performance report is made to UNFPA senior management.

522. **In paragraph 71**, the Board recommended that UNFPA implement procedures to prevent the pre-financing of projects.

523. Pre-financing of project expenditures is prevented effectively by use of the "commitment control" module and the requirement for expenditures to pass budget checking in the Atlas environment.

524. **In paragraph 74**, the Board recommended and UNFPA agreed to implement a formal debt collection policy to facilitate the effective monitoring and recovery of outstanding receivables.

525. UNFPA will ensure that the policy is established, communicated and put into practice.

526. **In paragraph 83**, the Board recommended and UNFPA agreed to intensify its efforts to implement age analysis using the Atlas system in order to better monitor funds advanced to implementing partners.

527. UNFPA will work in conjunction with the Atlas partner agencies and PeopleSoft consultants to design and develop ageing reports for funds advanced to implementing partners.

528. **In paragraph 87**, the Board reiterated its recommendation and UNFPA has agreed to: (a) include in its monitoring tools details of the appointment of auditors of nationally executed expenditures; and (b) use such details to verify compliance with the criteria set forth in its Policies and Procedures Financial Manual.

529. The Audit Services Branch is following up with country offices and divisions to obtain the missing information in order to ensure that the 2003 databases are complete.

530. **In paragraph 91**, the Board recommended and UNFPA agreed to: (a) expedite finalization of its draft guidance on appointment of project auditors; (b) communicate these guidelines to the country office; and (c) monitor compliance with the directives.

531. A technical note on the appointment of project auditors will be prepared by the United Nations Development Group inter-agency audit task group. This guideline will then be communicated by the Audit Services Branch to the country offices and divisions.

532. **In paragraph 97**, the Board reiterated its previous recommendation that UNFPA: (a) ensure that standard terms of reference are agreed by the country office and government implementing partners and the auditor of nationally executed expenditure; (b) ensure that the scope and format of the audit is consistent; and (c) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual.

533. A technical note on the terms of reference for the conduct of audits will be developed by the United Nations Development Group inter-agency audit task group. This guideline will then be communicated by the Audit Services Branch to the country offices and divisions. A checklist of the standard requirements to assist country offices in monitoring compliance with the requirements will be developed by the Audit Services Branch in the next few months. A review of the Financial Manual is ongoing in UNFPA and should address the scope and format of the audit.

534. **In paragraph 102**, the Board reiterated its previous recommendation and UNFPA agreed to continue to devote special attention to those country offices that had not submitted their audit plans in time by requesting them to commence with the planning exercise well in advance of the prescribed deadline.

535. The Audit Services Branch will continue sending reminders to those countries that have not submitted audit plans or whose plans were not in compliance with UNFPA requirements. For 2003, 99 per cent of the audit plans were received by March 2004.

536. **In paragraph 107**, the Board recommended that UNFPA continue to follow up on country offices that fail to comply with the organization's directives on the audit of projects.

537. The Audit Services Branch is sending out reminders on a regular basis and has enlisted the assistance of the geographic divisions to obtain outstanding project audit reports. The compliance of the country office with nationally executed projects and NGO requirements is reflected in the annual performance evaluation of the UNFPA representative.

538. **In paragraph 112**, the Board reiterated its previous recommendation that UNFPA include in a consolidated database all country office action plans relating to the audit reports on nationally executed expenditure. UNFPA should also evaluate the possibility of using the comprehensive audit and recommendation database

system to monitor the status of implementation of audit recommendations in respect of nationally executed projects.

539. The Audit Services Branch will continue to ensure that audit plans are provided by country offices and divisions. Non-compliance with the requirements for the submission of action plans is taken into account in the overall assessment of country offices. UNFPA will review the possibility of using a database to monitor implementation of audit recommendations in respect of nationally executed projects.

540. **In paragraphs 12 (e) and 117**, the Board reiterated its recommendation that UNFPA quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness.

541. Action plans to address audit qualifications should focus on material issues. The addition of operations managers in 44 country offices is expected to strengthen the capacity of the offices to carry out such analysis. This item was to be discussed during the training of operations managers in August 2004.

542. **In paragraph 123**, the Board recommended and UNFPA agreed to continue its efforts in developing a risk-based database.

543. One staff member in the Audit Services Branch has been assigned the responsibility of developing a risk-based database. The staff member has started gathering information to be included in the risk-based database.

544. **In paragraph 128**, the Board recommended and UNFPA agreed to continue its efforts to obtain and record particulars of actual audit costs for all audits of nationally executed projects.

545. The Audit Services Branch will continue its efforts to obtain and record particulars of actual audit costs for all audits of nationally executed projects. For the 2003 audit plans, 95 per cent of the countries have submitted information on estimated audit cost. Currently, the Audit Services Branch is obtaining the actual audit cost from country offices and divisions.

546. **In paragraph 131**, the Board encouraged UNFPA to further improve its ICT strategy and have it approved at the earliest possible opportunity.

547. The draft strategy will be finalized for approval by senior management.

548. **In paragraph 136**, the Board recommended and UNFPA agreed that its internal audit should verify the validity and accuracy of journals posted as a result of the data cleaning exercise.

549. Data will be made available by Finance Branch, which the Audit Services Branch will review and verify on a sample basis.

550. **In paragraph 138**, the Board recommended and UNFPA agreed to identify all changes in the Atlas system since the previous training and to provide updated training to users.

551. UNFPA will communicate changes in Atlas to all staff on a timely basis, update "how to" information posted on the portal and ensure all future training provided will cover all changes made since the previous training.

552. **In paragraph 143**, the Board recommended and UNFPA agreed, in consultation with UNDP and the United Nations Office for Project Services, to establish service level agreements with the service centres, identifying minimum standard requirements regarding the number of cases handled and establishing the time used to resolve problem cases.

553. UNFPA is currently addressing the level 1 help centre. For level 2, managed by UNFPA directly, minimum standards have already been established. The level 3 help centre will be addressed in the context of change control process. A new enterprise resource planning governance system has been proposed for discussion amongst the three partner organizations.

554. **In paragraph 146**, the Board recommended that UNFPA, in conjunction with UNDP, expand its contingency measures to ensure the ability to continue to provide information system processing capabilities.

555. The current contingency (disaster recovery) plan of UNFPA, UNDP and other partner agencies ensures less than 4 hours of data loss, restoration of minimum access in 24 hours and full restoration of service in 72 hours. The agencies are also seeking an "island mode" operation in country offices.

556. **In paragraphs 12 (f) and 152**, the Board recommended and UNFPA agreed, in conjunction with UNDP and UNOPS, to initiate an independent comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in internal controls for the Atlas system as soon as possible.

557. All the Board's recommendations contained in the internal control review report by UNDP are being jointly addressed by the partner agencies. A working group has been constituted to review these recommendations and to suggest corrective actions for review in the Trilateral Advisory Panel. A further review of internal controls will be conducted based on this process. The three concerned organizations will outsource an independent review.

558. **In paragraphs 12 (g) and 156**, the Board recommended and UNFPA agreed to compile, approve and disseminate an overall internal control framework to all staff that covers all modules of the Atlas system as a matter of priority.

559. UNFPA will prepare an overall internal control framework and disseminate to all staff as a matter of priority.

560. **In paragraph 162**, the Board recommended and UNFPA agreed, in conjunction with UNDP, to intensify its efforts to resolve the limitations on the general ledger module as a matter of priority.

561. The general ledger is now functional and journals have been generated from both the accounts payable and accounts receivable modules. The payroll interfaces from the IMIS and global payrolls are in the final stages of testing and acceptance, and completion is anticipated by 31 August 2004.

562. **In paragraph 167**, the Board recommended and UNFPA agreed to: (a) include appropriate terms and conditions addressing bank reconciliations in the service level agreement with UNDP for treasury services; and (b) closely monitor cash transactions processed by UNDP, on its behalf, until the reconciliations are in place.

563. UNFPA will ensure that terms and conditions addressing bank reconciliations are included in the service level agreement with UNDP. Until the procedure for

completing reconciliations is in place, cash transactions processed by UNDP will be monitored closely.

564. **In paragraph 171**, the Board recommended and UNFPA agreed, in conjunction with UNDP, to take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after the payment voucher has been approved.

565. UNFPA will implement the modification required to the payments screens on a priority basis.

566. **In paragraph 174**, the Board recommended that UNFPA, in conjunction with UNDP, ensure that payments split between two or more budget holders are approved by both budget controllers before payment takes place.

567. UNFPA understands that this feature is available in the next release of PeopleSoft 8.9, which is scheduled for implementation in 2005. In the interim, exception reports will be developed to protect against the risk of error.

568. **In paragraph 178**, the Board recommended that UNFPA, in conjunction with UNDP, expedite its efforts to develop and put into operation all exception/ monitoring reports.

569. UNFPA will develop and operationalize exception monitoring reports once general ledger functionality is operational.

570. **In paragraph 181**, the Board recommended that UNFPA, in conjunction with UNDP, reconsider activation of the audit trail function, taking into account the benefits and effect it will have on the operations of the Atlas system.

571. UNFPA has been advised that turning on the audit trail can have a severe impact on processing time and is not inclined to degrade the performance of the system. Currently, every data table keeps a record of the person who raised the transaction. The Fund believes this is sufficient control for now and will monitor the situation. Turning on the audit trail function will be considered, as necessary.

572. **In paragraph 184**, the Board recommended and UNFPA agreed, in conjunction with UNDP, and after assessing financial requirements, to implement firewall security at all country offices according to the recommended minimum standards for desktop and network environments.

573. An assessment of all the financial requirements of setting up such firewalls in all country offices will be carried out before implementation.

574. **In paragraph 187**, the Board recommended and UNFPA agreed, in conjunction with UNDP, to urgently allocate resources to resolve the shortcomings identified in the Atlas system as soon as possible, in particular those classified as critical.

575. UNFPA will work with the partner agencies to identify the best possible course of action, taking into account the systems release schedules and risk implications as well as acceptable work-arounds.

576. **In paragraph 192**, the Board recommended and UNFPA agreed that it would implement procedures to effectively coordinate all leave activities and accurately monitor the recording of leave to ensure that leave transactions are recorded consistently throughout the organization.

577. According to the memo from the Division for Human Resources of 15 March 2004, it has established a central leave monitor in the Division and has reminded all division directors to ensure compliance with established procedures, including submission of consolidated leave reports per year. (In the long run, leave monitoring will be carried out using the Atlas system; at this point only local staff in the field is monitored through the system).

578. **In paragraph 198**, the Board recommended and UNFPA agreed that it: (a) reduce recruitment lead time; and (b) intensify its efforts to implement workforce and succession planning.

579. The Recruitment and Staffing Branch has created a roster of candidates to enable placement of representatives and deputy representatives in a more timely manner. Work is currently being undertaken on a succession plan and on a comprehensive staffing policy.

580. **In paragraph 206**, the Board recommended and UNFPA agreed to: (a) perform yearly performance reviews in a timely manner in order to ensure that relevant and meaningful individual performance plans can be prepared for the following year; (b) revise its timelines for the implementation of the Performance Appraisal Review system; and (c) regularly monitor the performance system to ensure compliance with established deadlines.

581. The new Performance Appraisal System was introduced on 1 July 2004. This addresses the concerns expressed in subparagraphs (a), (b) and (c) above.

582. **In paragraph 212**, the Board recommended and UNFPA agreed to: (a) issue the contracts for consultants hired under appointments of limited duration prior to the commencement of work; (b) properly retain all contracts; and (c) maintain a current list of all appointments of limited duration.

583. **In paragraph 214**, the Board recommended and UNFPA agreed to enforce compliance with all applicable guidelines for Special Service Agreements in respect of performance and attendance.

584. **In paragraph 216**, the Board recommended and UNFPA agreed to obtain and file medical clearance certificates before contracting staff on Special Service Agreements as required under the guidelines.

585. The issues raised in the immediate paragraphs above have been addressed in the agreement with UNOPS.

586. **In paragraph 224**, the Board recommended and UNFPA agreed to: (a) expedite implementation of the expenditures report detailing all expenses incurred for training purposes, including appropriate ratios; (b) expedite the revision of the terms of reference and mandate of the Training Advisory Committee; (c) include a representative from the Staff Council in the discussions by the Training Advisory Committee on training needs; (d) approve and implement the work plan for 2004 as soon as possible; and (e) communicate the learning strategy throughout the organization and ensure that the Learning and Career Development Branch has the necessary resources and mandate to implement the strategy effectively.

587. The Learning and Career Development Branch is keeping records of all training expenses against the learning budget. In addition, the Branch is now collecting data on participants with regard to gender, level and type of appointment.

The same data will be collected from field offices with a survey that is currently in preparation. The recommendations in subparagraphs (b) through (e) above are completed. The new learning strategy was submitted to and approved by the Executive Committee and was communicated to all staff. Additional funding has been earmarked to implement the strategy.

588. **In paragraphs 12 (h) and 235**, the Board recommended and UNFPA agreed to introduce monitoring mechanisms to ensure that project travel falls within the budgeted amount allocated for travel expenditure.

589. Customized reports on project-funded travel will be periodically generated for submission to the appropriate oversight body/division for review and requisite action. Individual project managers will be held accountable for travel expenditure against budget.

590. **In paragraph 238**, the Board recommended and UNFPA agreed to prepare travel plans in accordance with its guidelines.

591. UNFPA will hold all Divisional Directors directly accountable for adhering to travel guidelines.

592. **In paragraph 241**, the Board recommended that UNFPA enforce compliance with its guidelines with regard to the timely submission of travel requests.

593. UNFPA will continue the monitoring of compliance by the Travel Unit and any lack of compliance will be reported to and followed up by the Deputy Executive Director concerned.

594. **In paragraph 246**, the Board recommended that UNFPA: (a) strengthen monitoring of the timely submission of travel claims by utilizing available reports; (b) follow up on outstanding travel claims to fully recover all travel advances; and (c) to the extent practicable, refrain from authorizing additional travel advances if previous travel claims have not been submitted.

595. This recommendation has been fully implemented.

596. **In paragraphs 12 (i) and 249**, the Board recommended and UNFPA agreed that it would evaluate future travel plans with a view to achieving the desired outcomes using alternative means, including videoconferencing.

597. A more critical assessment of travel plans will be conducted.

598. **In paragraph 256**, the Board recommended and UNFPA agreed to test the tools within the Atlas system that are expected to facilitate the implementation of results-based budgeting.

599. UNFPA is presently engaged in discussions to build a prototype based on the initial requirements identified. Implementation will be on a phase-by-phase approach.

600. **In paragraph 260**, the Board encouraged UNFPA to continue with its development of results-based management and results-based budgeting in coordination with other organizations in order to benefit from best practices and lessons learned.

601. An operational plan will be prepared for UNFPA's transition to results-based budgeting over the required time framework, currently estimated between 2 and 4

years. The first phase of the fit/gap analysis has taken place to assess which PeopleSoft module would best accommodate budgeting for results. A draft corporate balanced score card has been mapped and divisional scorecards are being engineered based on the corporate one. Both the results-based budgeting report and the balanced score card will be subject to review and clearance by senior management.

602. **In paragraph 264**, the Board recommended and UNFPA agreed that it: (a) consider the impact of the Board's findings regarding the management of the UNDP Treasury in order to address all risks pertaining to UNFPA; (b) develop compensating controls where necessary; and (c) finalize an updated service-level agreement with UNDP setting out each party's responsibilities.

603. UNFPA will review the findings on UNDP Treasury management to identify the weaknesses that have implications for UNFPA. Service level agreements will be finalized along with those for other services outsourced to UNDP.

604. **In paragraphs 12 (j) and 272**, the Board recommended and UNFPA agreed to: (a) develop an internal audit charter detailing the purpose, authority and responsibility of the internal audit function; and (b) educate personnel about the functions and positive impact of an internal audit function.

605. An audit charter will be developed later in 2004 that will include the purpose, authority and responsibilities of the Audit Services Branch. The Branch has gathered documentation to assist with the preparation of the audit charter. The Oversight Committee will review and endorse the charter.

606. **In paragraph 279**, the Board recommended and UNFPA agreed to: (a) expedite the filling of vacant posts in the Division for Oversight Services; and (b) improve its audit coverage on the reliability of the accounting and other data leading to the production of financial statements.

607. After the Audit Services Branch is fully staffed, a strategy will be developed to implement the recommendation contained in subparagraph (b) above.

608. **In paragraph 286**, the Board recommended and UNFPA agreed to: (a) follow up systematically on the implementation of internal audit recommendations; (b) ensure that all recommendations and the follow-up actions are recorded in the audit database; and (c) continue to task the Internal Audit section with the monitoring of the follow-up action of the geographic divisions.

609. The Division of Oversight Services of UNFPA will continue to monitor the implementation of the recommendations and the follow-up action of the geographic divisions on the implementation of the recommendations.

610. **In paragraph 295**, the Board recommended and UNFPA agreed to implement procedures to monitor the issuing of progress reports as required in terms of donor agreements.

611. UNFPA will clarify the division of responsibility for managing co-financed projects, including reporting, and the geographic divisions will monitor the submission and issuance of progress reports.

612. **In paragraph 299**, the Board reiterated its recommendation that UNFPA country offices complete receipt and inspection reports within three weeks of the delivery of goods and services and forward reports to the Procurement Unit at

headquarters. The Board further recommends that UNFPA headquarters monitor the submission of receiving and inspection reports and follow up on reports not received.

613. Monthly reports on the completion of receipt and inspection reports are being requested through the Atlas system so that appropriate action can be taken in respect of those country offices delinquent in submission. Technical difficulties are currently being experienced, but they are being addressed.

614. **In paragraph 303**, the Board recommended and UNFPA agreed that it would implement procedures to: (a) monitor and follow up the progress of purchase orders; and (b) document the practices regarding the use of an approved suppliers' list in the UNFPA procurement policies in order to ensure consistency and transparency.

615. Action has been taken to ensure that timely delivery is understood and committed to by all holders of long-term agreements. Procurement officers have been instructed to ensure that all purchase orders have clear delivery dates and that regular follow-up is carried out to ensure compliance. Upon its transfer to Copenhagen, the Procurement Services Section will, in early 2005, introduce the position of expediting assistant whose function will be to monitor all delivery dates. Procurement procedures have been revised and are currently being reviewed by senior management. Currently, the supplementary procurement guidelines contain detailed information on prequalification of suppliers.

616. **In paragraph 306**, the Board recommended and UNFPA agreed that it should obtain outstanding fraud and presumptive fraud reports from the country offices and take appropriate action to address the outstanding cases reported.

617. UNFPA will coordinate appropriate follow-up action.

618. **In paragraph 308**, the Board recommended and UNFPA agreed "to provide full details of all cases of fraud and presumptive fraud.

619. **In paragraph 314**, the Board recommended and UNFPA agreed, in conjunction with UNDP and UNOPS, to intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.

620. UNFPA is meeting regularly with UNDP and UNOPS to develop a fraud prevention strategy. The fraud prevention policy statement is in the process of being reviewed by the agencies.

X. United Nations Human Settlements Programme

621. The actions taken or to be taken to implement the recommendations of the Board of Auditors in the report on the accounts of the United Nations Human Settlements Programme (UN-Habitat) for the biennium ended 31 December 2003[10] are set out below. The implementation of the following recommendations is the joint responsibility of the Director, Programme Support Division UN-Habitat and the various section chiefs of the Monitoring and Evaluation Unit and the finance, human resources and procurement departments of the United Nations Office at Nairobi.

622. **In paragraphs 10 (a) and 23**, the Board recommended that, in conjunction with the United Nations Office at Nairobi, UN-Habitat should continue to review

outstanding obligations on a timely basis and to cancel those that are no longer valid.

623. All unliquidated obligations for 2000-2001 have been reviewed and closed accordingly. UN-Habitat has also requested all programme management officers to urgently review all outstanding obligations on a periodic basis with a view of cancelling those that are no longer valid. In addition the automatic cancellation of obligations relating to type 4 funds is also likely to be in place before the end of 2004.

624. **In paragraph 26**, the Board recommends that UN-Habitat disclose, in conjunction with the United Nations Office at Nairobi, the breakdown of all sources of miscellaneous income and the amount of non-expendable property sold and donated, with explanation as to reasons for adjustments.

625. The United Nations Office at Nairobi will seek clarification from United Nations Headquarters on the status of its requests for information to support the regular budget reports in order to establish whether they are also an indicator of external reporting requirements.

626. **In paragraphs 10 (b) and 36**, the Board recommended that UN-Habitat should consider regularizing its practice of financial closure at the end of the subsequent year after the operational closure of projects and that it should coordinate with project partners for the financial closure of projects.

627. All concerned staff has been requested to closely coordinate with their project partners to financially close all operationally closed projects within 12 months of completion.

628. **In paragraph 39**, the Administration agreed with the Board's recommendation that it ensure a complete and organized project documentation and filing/archiving system.

629. The recommendation is currently being implemented as part of the overall archives and records management system. Full implementation is targeted for mid-2005.

630. **In paragraph 44**, the Administration agreed with the Board's recommendation that UN-Habitat inform the United Nations Office at Nairobi of movements or transfers of property in a timely manner in order to facilitate the recording of adjustments in the property records.

631. A physical inventory of all property is carried out on an annual basis. UN-Habitat will also request the respective divisions to continuously inform the Procurement, Travel and Shipping Sections of any transfer of non-expendable property between end-users on a timely basis.

632. **In paragraphs 10 (c) and 52**, the Board recommended that UN-Habitat, in conjunction with the United Nations Office at Nairobi, should take immediate action to ensure the accuracy, completeness and proper control of non-expendable property in compliance with appropriate directives.

633. The regional offices are currently reconciling their physical property to the respective inventory reports submitted to ensure accuracy and completeness.

634. **In paragraph 56**, the Administration agreed with the Board's recommendation that it ensure, in conjunction with the United Nations Office at Nairobi, full compliance regarding medical certificates as required by administrative instruction ST/AI/1999/7.

635. The United Nations Office at Nairobi has reiterated to all concerned staff that consultants must submit a medical certificate prior to commencement of his/her assignment. The compliance of this requirement will be closely monitored.

636. **In paragraphs 10 (d) and 60**, the Board recommended that UN-Habitat should: (a) periodically evaluate the work of consultants, in particular when their services are being considered for extension; and (b) include in the database relevant information pertaining to consultants' previous contracts such as the outputs required in the terms of reference, date of output submission and performance evaluation to be used as reference for any subsequent assignment.

637. All payment schedules are linked to specific outputs and/or performance of the consultants, which are evaluated and registered on IMIS before payments can be effected. The database of consultants will also be reviewed to ensure that information on the consultant's performance in previous assignments is maintained.

638. **In paragraph 63**, the Administration agreed with the Board's recommendation that it ensure, in conjunction with the United Nations Office at Nairobi, that contracts for consultants and individual contractors are signed by representatives of both contracting parties prior to the commencement of the engagement, as required by administrative instruction ST/AI/296, and to avoid ex-post facto approval of contracts.

639. All concerned staff have been informed that all contracts must be signed by representatives of both contracting parties prior to the commencement of the contract. The compliance of this regulation will be closely monitored.

640. **In paragraph 65**, the Administration agreed with the Board's recommendation to coordinate with the United Nations Office at Nairobi in identifying the training needs of staff through training needs assessment and to determine the impact of training on the staff and the organization.

641. A training needs assessment has been carried out. All efforts will be made by the United Nations Office at Nairobi to carry out an assessment of the impact of training on the staff and the organization as a whole.

642. **In paragraph 73**, the Administration agreed with the Board's recommendation to enforce, in coordination with the United Nations Office at Nairobi, the requirement that travellers file their travel claims with the required supporting documentation within two weeks after completion of the travel and take action to recover outstanding advances in the event of non-compliance.

643. Processing of travel claims has been streamlined and recovery of outstanding advances has been effected accordingly in the event of non-compliance.

644. **In paragraph 78**, the Board recommended that the Administration should implement adequate controls in IMIS in order to avoid occurrences of over-obligations or overexpenditures in the implementation of technical cooperation projects and to reflect the actual financial status of projects in the IMIS-generated project status reports.

645. A review of the IMIS-generated project status reports on the financial status of technical cooperation projects is currently being undertaken with a view of improving the financial management of the projects. Implementation of a fund sufficiency check is being explored as an additional control.

646. **In paragraph 81**, the Administration agreed with the Board's recommendation that it develop results-based budgeting indicators.

647. The performance indicators used as part of results-based budgeting will be further refined.

XI. Fund of the United Nations International Drug Control Programme

648. The actions taken or to be taken to implement the recommendations of the Board of Auditor's in the report on the accounts of the United Nations International Drug Control Programme for the biennium ended 31 December 2003[11] are set out below. The Executive Director of the Office on Drugs and Crime is ultimately responsible for the implementation of these recommendations supported by the management team, including the Chief, Fund Accounts, Financial Resources Management Service; and the Manager, Information Technology Service.

649. **In paragraph 11 (a) and 34**, the Board recommended and the United Nations Office on Drugs and Crime agreed to improve the monitoring of programme expenditure, including obligations in the field, with a view to avoiding unbudgeted and late-reported expenditure, and was to implement a new ledger system in 2004.

650. A field office management ledger system has been developed within the ProFi system and it is already operational in all field offices as far as the payment request module is concerned. The facility has the ability to create standard payment requests indicating all relevant information to be recorded in the Atlas system developed by UNDP. The full release of the field office management ledger system, whereby field offices will be able to record pre-encumbrances, obligations and disbursements, is in the final stages of testing. Full acceptance and use of the new tool is expected to be taken up by all field offices by the end of 2004. The ProFi regional training sessions, which are scheduled to take place in Africa and Asia later in 2004, will include a full module on how to use the field office management ledger application and on how it relates to information in the ProFi and Atlas systems.

651. **In paragraph 11 (b) and 36**, the Board recommended that the United Nations Office on Drugs and Crime closely monitor the implementation of its operations with UNDP, so as to detect and address in a timely manner any impact resulting from the use of the new enterprise resource planning system of UNDP.

652. The United Nations Office on Drugs and Crime has negotiated the release of weekly "data dumps" from the Atlas system with UNDP. These "data dumps" include all transactions performed to date by UNDP on behalf of the field offices of the Office on Drugs and Crime. The information is received in raw format and uploaded into the ProFi reporting infrastructure. Another programme analyses the data and highlights discrepancies and errors, which are then reported back to the field offices for correction.

653. Field office staff have been requested to check on a weekly basis that all transactions recorded in the Atlas system have been correctly entered into the system and that they correspond to relevant payment requests forwarded to UNDP. Field offices have the responsibility to verify all data submitted through the Atlas system and to arrange for correction by the UNDP country offices. Disbursed amounts, according to the ProFi-Atlas report, will be recorded in the field office management ledger application to reconcile information on project expenditures.

654. **In paragraph 41**, the Board recommended that the United Nations Office on Drugs and Crime properly classify all posts between programme and support budget and document the rationale for classifying expenditure under one or the other of its budgets.

655. A document on the core programme, which has been prepared for approval by the Executive Committee of the United Nations Office on Drugs and Crime at the United Nations Office at Vienna, proposes the transfer of the advocacy programme from the core budget to the support budget in accordance with rule 2.2 of the Financial Rules of the Fund of the United Nations International Drug Control Programme. Following approval of the document, all remaining job descriptions of the core programme positions will be submitted to the Human Resources Management Service for confirmation that posts are classifiable under the core programme. The revised budget for the Fund of the United Nations International Drug Control Programme for 2004-2005, to be submitted to the Commission on Narcotic Drugs for its session in March 2005, will contain the justification. The approval of the Executive Committee is expected by September 2004 and the classification by the Human Resources Management Service is expected by the end of October 2004. The document on the revised budget for the Fund of the United Nations International Drug Control Programme will be issued at the beginning of January 2005.

656. **In paragraphs 11 (c) and 47**, the Board recommended and the United Nations Office on Drugs and Crime agreed to review its procedures in order to account properly for all obligations, and therefore to comply with accrual accounting as provided for by the United Nations system accounting standards, by financial rule 15.6 of the United Nations International Drug Control Programme and by the accounting policies reflected in note 2 to the financial statements.

657. During negotiations with UNDP on the revised working arrangement between UNDP and the United Nations Office on Drugs and Crime, UNDP reiterated that it will not be in a position to report on outstanding obligations and will continue to report disbursements only. It was, therefore, decided that the field office management ledger (outlined in response to the Board's recommendation contained in paragraph 649 above), will be used to account for outstanding commitments at the field level for the operational budgets of the field offices as well as for projects implemented by the field offices of the United Nations Office on Drugs and Crime. The interim financial statements of the Fund of the United Nations International Drug Control Programme, as at 31 December 2004, will include the notes on outstanding obligations at the field level.

658. **In paragraphs 11 (d) and 53**, the Board recommended and the United Nations Office on Drugs and Crime agreed to: (a) take appropriate steps to identify and close any unauthorized bank accounts; (b) remind all staff concerned of rules on the

management of bank accounts; and (c) provide UNDP with a list of the bank accounts duly authorized by the United Nations Treasurer.

659. The recommendation has been fully implemented. The audit observations were shared with the field representatives of the United Nations Office on Drugs and Crime during the field representatives seminar in May 2004. To address the recommendations contained in subparagraphs (a) and (b) above, the United Nations Office on Drugs and Crime wrote to all field offices on 2 August 2004 for information and compliance. As regards the recommendation in subparagraph (c) above, the United Nations Office on Drugs and Crime forwarded the list of its duly authorized bank accounts to the UNDP Controller on 2 August 2004 with a request that he forward it to all UNDP field offices.

660. **In paragraph 58**, the Board recommended and the United Nations Office on Drugs and Crime agreed to: (a) investigate further the issue of the $760,000 bank balance that disappeared for six months in 2002 so as to prevent the recurrence of such a problem during a transfer between two accounts; and (b) request that the bank pay compounded interest for the period.

661. The implementation of this recommendation is ongoing. Full implementation is dependent on the actions of Treasury at United Nations Headquarters. A formal investigation into the matter was requested in July 2004.

662. **In paragraphs 11 (e) and 63**, the Board reiterated its recommendation and the United Nations Office on Drugs and Crime agreed that it should review the funding mechanism and target for end-of-service and post-retirement benefit liabilities, in conjunction with the administration of the United Nations and other funds and programmes.

663. The United Nations Office on Drugs and Crime has sought the advice and guidance of the Controller at United Nations Headquarters on liabilities for end-of-service and post-retirement benefits, in particular the requirement to facilitate an actuarial valuation of after service health insurance.

664. **In paragraph 65**, the Board recommended and the United Nations Office on Drugs and Crime agreed to disclose additions and disposals of non-expendable equipment in the financial statements for the biennium 2004-2005 to the extent possible.

665. The Office is currently developing a system on Lotus Notes (available to all field offices) that will incorporate all requirements on inventory control. Field offices will be requested to complete this system with: (a) the data as per 31 December 2003; and (b) any changes that occurred during 2004. Reports on available data will be extracted centrally by the headquarters of the United Nations Office on Drugs and Crime and certification will be requested from each field representative prior to inclusion in the financial statements. The interim financial statements as at 31 December 2004 will include inventory data as extracted from the system and certified by the field representatives.

666. **In paragraph 72**, the Board recommended that the United Nations Office on Drugs and Crime pursue its efforts to prepare its programme budget on the basis of realistic assessments of deliverable outputs and resources.

667. In July 2004, the Financial Resources Management Service submitted to the Executive Committee, a budget performance report vis-à-vis the 2004-2005

consolidated budget of the United Nations Office on Drugs and Crime. For budget monitoring purposes, this type of report will be submitted to the Executive Committee on a quarterly basis. The experience gained from this process will enable the Office to prepare for the next budget cycle.

668. **In paragraphs 11 (f) and 77**, the United Nations Office on Drugs and Crime agreed with the Board's recommendation to match accurately programming with collections on an annual basis, in order to allow for adequate monitoring of resources and outputs on an annual basis.

669. See response above provided to Boards' recommendation contained in paragraph 72 of its report (see para. 666 above).

670. **In paragraph 80**, the Board recommended and the United Nations Office on Drugs and Crime agreed to: (a) review again its portfolio of projects by closing those that are oldest and have poor funding prospects; and (b) set closing procedures with field offices for all projects.

671. In addition to the budget performance report, mentioned in paragraph 666 above, the Financial Resources Management Service also submitted the fund balance report to the Executive Committee on 28 July 2004. This report addresses all ongoing projects as well as soft and hard pipeline projects. The first report in this regard was submitted to the Executive Committee on 28 July 2004. In its meeting of 28 July, the Committee requested all programme managers to review the full project portfolio, project-by-project, inclusive of operationally closed projects. Quarterly updates will be provided by the Financial Resources Management Service to the Executive Committee for monitoring purposes.

672. **In paragraph 90**, the Board recommended that the United Nations Office on Drugs and Crime follow up all audit reports on nationally executed expenditure outstanding for past bienniums.

673. The United Nations Office on Drugs and Crime continues to follow up on the outstanding reports for the biennium 2002-2003. In addition, to facilitate follow-up of the implementation of audit recommendations issued in project audit reports, a new Lotus Notes workflow application was introduced in July 2004. This application will keep track of outstanding issues and issue automated reminders when deadlines are not complied with.

674. **In paragraphs 11 (g) and 96**, the Board recommended that the United Nations Office on Drugs and Crime strengthen its controls on and requirements for nationally executed projects.

675. As an initial step towards improving the Office's compliance with the recommendation, a presentation on the annual audit of nationally executed projects, which highlighted the problems discussed in the Board's report was made during the field representatives seminar held in Vienna from 9 through 12 June 2004. To strengthen its controls on nationally executed projects, the Financial Resources Management Service is currently preparing a set of management instructions on them. This will be issued upon its finalization and approval by the Executive Committee. The instructions will serve as guide to field offices in the annual nationally executed audit exercise. In addition, the Financial Resources Management Service will continue to liaise closely with the UNDP Office of Audit

and Performance Review and with the field offices administering nationally executed projects to ensure that the requirements for such projects are adhered to.

676. **In paragraphs 11 (h) and 99**, the Board reiterated its recommendation and the United Nations Office on Drugs and Crime agreed to achieve greater consistency in the substance and form of audit reports on nationally executed expenditure.

677. Since the responsibility for ensuring that the terms of reference governing the audit of nationally executed projects, which covers the substance and format of the audit reports, rests with the field offices administering such projects who coordinate directly and closely with the local UNDP counterparts, the United Nations Office on Drugs and Crime will liaise with its field offices to ensure that the terms of reference are in accordance with UNDP guidelines.

678. **In paragraphs 11 (i) and 104**, the Board recommended that the United Nations Office on Drugs and Crime act upon qualified audit reports and reported misuse of funds relating to nationally executed expenditure.

679. The United Nations Office on Drugs and Crime has included measures to implement this recommendation in the revised working arrangement between UNDP and the Office, which is currently being negotiated with UNDP.

680. **In paragraph 106**, the Board expressed special concern on shortcomings observed relating to cash and bank account management and recommended that the United Nations Office on Drugs and Crime update and extend management instructions, such as on cash and inventory management.

681. Guidelines on inventory controls were submitted to all field offices. Annex I to revised management instruction 8 on field office administration will provide the aforementioned guidelines. Cash and bank account management will also be covered in the revised management instruction. These instructions will be issued as soon as the revised working arrangement between UNDP and the United Nations Office on Drugs and Crime is completed. The date for completion has been scheduled for September 2004.

682. **In paragraphs 11 (j) and 110**, the Board recommended and the Office on Drugs and Crime agreed to (a) standardize field office accounting practices; (b) streamline its support and project expenditure monitoring; and (c) enter support or programme expenditure under the appropriate lines of financial statements.

683. Effective 1 July 2004, the office in Tashkent, implemented the new field office management ledger, which will be standard in all field offices. During the period from 7 through 15 August 2004, the finance assistant, of the field office in Uzbekistan will be in Vienna to share her experience on the field office management ledger with the ProFi development team and also to undergo further ProFi and finance-related training. Thereafter, she will be the designated focal point, stationed in Tashkent, for the new field office management ledger. Meanwhile, all other offices have been provided with access to the new system and instructed to familiarize themselves with the application. Later in the year, the ProFi training team will conduct a one-week regional training seminar in Nairobi. This will be followed by another regional session for Asia on October 2004. The training sessions will include a full module on the application of the system. With regard to the recommendations contained in subparagraphs (b) and (c) above, the matter is ongoing with the introduction of the new payment request form, in close

cooperation between the field offices of the United Nations Office on Drugs and Crime and UNDP.

XII. United Nations Office for Project Services

684. The following is a status report on the measures taken by the United Nations Office for Project Services (UNOPS) to implement the recommendations of the United Nations Board of Auditors contained in its report to the General Assembly on the accounts of UNOPS for the biennium ending 31 December 2003 [17]. The Executive Director of UNOPS, and the departmental directors are responsible for the implementation of the recommendations.

685. **In paragraphs 18 (a) and 38 of its report**, the Board recommended, and UNOPS agreed, that UNOPS should exercise caution in its budgetary assumptions and delivery projections to ensure that realistic targets were established.

686. UNOPS agrees with the Board's recommendation and has taken several steps to ensure that its budgetary assumptions and delivery projections are realistic and achievable. UNOPS has engaged the services of an outside consultant to review its in-house draft budget to ensure that the budget was realistic. The plan was presented to the new senior management team during a six-day retreat held in April 2004. The draft budget was further reviewed before it was presented to the Management Coordination Committee. The Committee and the Executive Board subsequently endorsed the "most likely" case scenario for the 2004 fiscal year in May and June 2004 respectively.

687. **In paragraph 42**, UNOPS agreed with the Board's reiterated recommendation that it continue to review its medium-term strategy in a comprehensive manner, including such elements as an analysis of the variables related to business from the United Nations Development Programme (UNDP), with a view to aligning its project delivery approach. The Board also recommended that UNOPS fully explore all potential business acquisition possibilities and alternate sources of funding, given the changes in mandate effective January 2004.

688. The implementation of this recommendation is in progress. The competitive landscape has radically changed since UNOPS became an independent entity in 1995. As noted in the response to that recommendation, initiative No. 1 focuses on reviewing the existing mandate of UNOPS, corporate strategy and business model. This initiative, designed to involve all stakeholders, will assess how UNOPS can add value within the United Nations system and within the development and aid community overall. This analysis will involve scanning the external environment, assessing the current and future demand for UNOPS services, scrutinizing services delivery modalities, assessing client perceptions regarding value for money, calculating existing cost structure and assessing the nature and extent of the competition. Specific attention will focus on enhancing the UNDP-UNOPS partnership and identifying new ways and modalities of cooperation. This initiative will be conducted from September 2004 to January 2005.

689. **In paragraphs 18 (b) and 48**, UNOPS agreed with the Board's recommendation that it (a) evaluate the basis and calculation of the cost of services, with a view to ensuring that all costs were identified and recovered; (b) implement a system that addressed all shortcomings identified in the existing workload system;

and (c) considered the feasibility of using a fixed minimum margin to be able to better control fluctuations in cost recovery rates while ensuring that UNOPS remained cost-effective.

690. UNOPS needs to re-examine its existing pricing strategy. In conjunction with initiative No. 4, planning, budgeting, and quick hit cost savings, and initiative No. 6, proposal tracking, project acceptance and project set up, pricing methods and existing cost structures will be examined. However, these initiatives will focus on better understanding the existing cost structures of UNOPS rather than changing the organization's pricing methodology. Initiative No. 1, development of a new corporate and operating strategy, will define the need that UNOPS is meeting in the marketplace, the products and services the organization is selling to meet these needs and the nature and extent of the competition. Once the strategic direction is defined, the appropriate pricing strategy can be debated and determined.

691. **In paragraph 52**, UNOPS agreed with the Board's recommendation that it consider carefully the potential impact prior to any further reductions in the number of employees, as that could affect its ability to meet project delivery needs, and further loss of skills and resources could have a negative impact on its ability to comply with finance and administration requirements.

692. The present exercise does not constitute substantial reduction in numbers of staff, although efforts are being made to secure the retention of staff through project assignments and redeployment opportunities. A change in the number and type of posts in the client service division, however, is possible if business demand decreases or UNOPS changes its strategy.

693. **In paragraph 58**, UNOPS agreed with the Board's reiterated recommendation that it remain focused on preparing budgets and revisions thereto on a basis which was more in line with realistic project delivery.

694. See the response to recommendation contained in paragraph 38 of the Board's report (see para. 686 above).

695. **In paragraphs 18 (c) and 63**, UNOPS agreed with the Board's recommendation that it: (a) monitor and track all the variables affecting the going-concern assumptions, and (b) agree with the Executive Board on a time frame for the rebuilding of the operational reserve.

696. UNOPS is monitoring actual revenues and expenditure on a monthly basis as well as actual expenditures made from the fund balance. The most recent analysis was performed on 30 June 2004. The monitoring of UNOPS operational reserve and fund balance is an integral part of ongoing planning, budgeting and monitoring process.

697. **In paragraphs 18 (d) and 76**, UNOPS agreed with the Board's recommendation that it review, in conjunction with the administrations of the United Nations and other funds and programmes, the funding mechanism and targets for end-of-service and post-retirement benefit liabilities, and expedite its consideration of the funding of end-of-service liabilities, given its unique funding principles.

698. UNOPS has agreed to use the cash basis or "pay-as-you-go" method to record after-service health insurance costs like other agencies and entities within the United Nations system. The pay-as-you-go method recognizes benefit costs (e.g., records the expense) when the benefits are paid to retired employees. Because UNOPS is

not accruing for the future after-service health costs of existing eligible employees, the expenditure base is understated. A Mercer Management Consulting study found that the net present value of UNOPS unfunded health insurance payments for existing and future retirees was $37.2 million at 31 December 2003.

699. For UNOPS, the amount of this liability however, involves obtaining answers to related questions: (a) How should UNOPS "retired health benefit" population be defined? (e.g., currently eligible employees, retired employees, both currently eligible and retired employees, currently eligible and/or retired employees funded from projects, administrative funds, or both); (b) Who owns the liability: UNDP or UNOPS, especially for UNDP employees who have been working at UNOPS but were never formally seconded? UNOPS is part of a working group of other United Nations agencies and entities to determine the proper method of accounting for and funding this liability.

700. **In paragraphs 18 (e) and 80**, UNOPS agreed with the Board's recommendation that it (a) reconcile the payroll with the general ledger on a regular basis to ensure that all payroll costs had been correctly allocated; (b) certify the reconciliations at an appropriate level of seniority as proof of review and (c) make specific year-end and biennium-end closing arrangements to validate differences.

701. UNOPS will examine the payroll reconciliation process to ensure that proper controls are in place.

702. **In paragraphs 18 (f) and 89**, UNOPS agreed with the Board's recommendation that it: (a) update inventory records for all decentralized offices and reconcile all movements with the appropriate additions and disposals; (b) mark all UNOPS inventory items with a unique identifiable inventory number or serial number; (c) conduct inventory counts at regular intervals; (d) and ensure that valid, accurate and complete opening balances were included in the Atlas system.

703. See the response provided to the Board's recommendation contained in paragraph 128 (see paras. 715-718 below).

704. **In paragraphs 18 (g) and 98**, UNOPS agreed with the Board's recommendation that it take immediate actions: (a) to perform reconciliations for all imprest, inter-office voucher and inter-fund accounts; (b) investigate and resolve all reconciling items; (c) quantify the reconciling items and projections; (d) process the resulting adjustments; and (e) implement measures to prevent occurrence of similar failures of controls, including to adequately train staff.

705. UNOPS management recognizes imprest accounting as a very large and extremely troubling, risk area. UNOPS has created initiative No. 3, imprest accounting, to solve this problem. This initiative is composed of three separate projects. The first project focuses on processing, reconciling and properly recording transactions made in the more than 112 UNOPS imprest and sub-imprest accounts in 2004. All paperwork associated with 2004 processing, reconciling and recording has been transferred from Kuala Lumpur to New York. The second project, focuses on reconciling and recording imprest account transactions made in 2002 and 2003. The third project has a strategic focus, to determine, specifically, whether UNOPS needs an imprest accounting system given that the PeopleSoft system is web-enabled and if it is needed, which, if any, of the two competing systems currently in place — FASS and Visual Imprest — would be more appropriate for UNOPS needs. The

third project would then implement the solution based on the strategic future of the imprest system.

706. **In paragraph 103**, UNOPS agreed with the Board's recommendation that it: (a) take immediate steps to identify all excess expenditure; (b) solicit additional budget approvals from clients to cover the excess expenditure; (c) report unfunded deficits and the impact on the financial position of UNOPS to the Management Coordination Committee; and (d) evaluate controls with regard to project budgets as part of the Atlas business process analysis, to ensure that proper monthly review of project budgets and expenditure were completed.

707. In selected instances, project budgets may have been overspent. Provided project managers use the Atlas system as intended and UNOPS internal control framework is operational, the commitment control feature of Atlas should act as a first line of defence against overspending. UNOPS management will also examine the cost benefit of installing other preventative and detective controls.

708. **In paragraph 117**, UNOPS agreed with the Board's recommendation that it (a) consider the disclosure of items in the financial report in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues; and that in this regard, UNOPS should revert to paragraph 6 of General Assembly resolution 57/278 A, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly; (b) continue to improve the presentation and disclosure of financial statements; and (c) disseminate any key improvements to other United Nations organizations.

709. Proper financial disclosure and communication is a critical element of internal control. UNOPS management will endeavour to properly disclose all material events and activities to ensure the reliability and integrity of the financial statements.

710. **In paragraph 122**, UNOPS agreed with the Board's reiterated recommendation to expedite, in consultation with UNDP, the finalization of the memorandum of understanding to regulate the functions of central services provided by UNDP. Furthermore, UNOPS in consultation with UNDP, should compile and finalize the service level agreements clearly setting out the respective functions and responsibilities.

711. UNOPS will record the current agreement; match the current arrangement with anticipated needs; amend the agreement to reflect changes; and establish ongoing monitoring mechanisms.

712. **In paragraph 125**, UNOPS agreed with the Board's recommendation that it ensure, in consultation with UNDP, the Atlas system (wave 2) implementation agreement with UNDP (a) clearly defined the scope of the agreement and cost structure; and (b) limited its potential liability for consequential costs incurred by UNDP for which UNOPS was not directly responsible.

713. See the response provided to the Board's recommendation contained in paragraph 128 (see paras. 715-718 below).

714. **In paragraph 128**, UNOPS agreed with the Board's reiterated recommendation that it arrange for internal oversight coverage on financial procedures, controls and data.

715. UNOPS management is keenly aware of the importance of maintaining a proper internal control environment that provides reasonable assurance regarding: (a) the effectiveness and efficiency of operations; (b) the reliability of financial reporting; and (c) compliance with applicable laws and regulations.

716. UNOPS management will leverage relevant external (the Committee of Sponsoring Organizations of the National Commission on Fraudulent Financial Reporting (also known as the Treadway Commission) and the Act to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes (the Sarbanes-Oxley Act of 2002)) and United Nations internal pronouncements, to review and re-engineer UNOPS internal control environment. Management is also participating in a joint internal control framework task force that is chaired by the internal audit group of UNDP. The task force is trying to establish some basic principles and frameworks by September 2004. However, given the size of UNOPS staff and the myriad of other commitments, UNOPS participation has not been as active or as involved as may be required.

717. UNOPS management also participates in a three agency working group (UNDP, the United Nations Population Fund (UNFPA) and UNOPS) that is looking to update, harmonize and simplify each of the organization's financial rules and regulations. UNDP and UNFPA have set a completion date of December 2004/January 2005.

718. UNOPS plans to leverage as much of the relevant material prepared by the other agencies as possible. Once UNOPS management has finalized its corporate strategy (initiative No. 1), the Division for Finance and Administration plans to work in concert with the Office of Legal Services to update its financial rules and regulations. Finalizing the strategic direction is a critical first step in the development of well-reasoned and defensible financial rules and regulations. The Division for Finance and Administration, together with OLS, will also ensure that any new financial rules and regulations are harmonized, where possible, with UNDP and UNFPA.

719. **In paragraph 132**, UNOPS agreed with the Board's recommendation that it: (a) enter into formal negotiations with the lessor as soon as possible regarding consent to exceed the 25 percent sublease limit; (b) develop a policy to manage the rental of the unutilized space; and (c) perform a cost-benefit analysis of continuing with the current lease agreement.

720. The management of the Chrysler Building facilities is under the direction of the Division for Finance and Administration. UNOPS management will review its existing policy regarding subleased space and the cost-benefit of continuing in the current lease agreement.

721. **In paragraphs 18 (b) and 140**, UNOPS agreed with the Board's recommendation that it: (a) develop an information and communications technology strategic plan; (b) consider creating an information and communications technology steering function or committee and (c) consider the benefits of adopting international standards and best practices to be applied to its information and communications technology environment.

722. UNOPS will map and analyse current infrastructure and software applications and finalize corporate strategy and linkage between information and communication

technology and corporate strategy. It will also establish guidelines and terms of reference for the information and communication technology steering committee.

723. **In paragraph 145**, UNOPS agreed with the Board's recommendation that UNOPS internal audit verify the validity and accuracy of journals posted as a result of the data-cleaning exercise.

724. UNOPS management understands the value that an internal audit team provides to evaluate the effectiveness of the internal control system and contribute to its ongoing effectiveness. UNOPS management will continue to maintain a close professional relationship with the internal audit function and implement their suggestions in the most cost-beneficial manner.

725. **In paragraph 147**, UNOPS agreed with the Board's recommendation that it identify all changes in the Atlas system since the previous training and provide updated training to users on such changes.

726. Part of initiative No. 2, Atlas stabilization and optimization, is to provide ongoing learning and training opportunities for all users. Training sessions have recently been held on procurement to ensure that Atlas updates and modifications are in synchronization with user knowledge.

727. **In paragraph 151**, UNOPS agreed with the Board's recommendation that it establish, in consultation with UNDP and UNFPA, a service-level agreement with the service centres, identifying minimum standard requirements regarding the number of cases handled, and that the time taken to resolve problem cases should be established.

728. UNOPS will review the existing service-level agreements and make any short-term changes, as required. The nature, extent and pricing of future service level agreement may depend on UNOPS future strategic direction.

729. **In paragraph 154**, UNOPS agreed with the Board's recommendation that it expand, in conjunction with UNDP, its contingency measures to ensure the ability to continue to provide information-system processing capabilities in the event that the major facilities are not available for a significant period of time.

730. The Division for Information and Communication Technology will establish emergency/disaster recovery plans for information and communication technology and link the emergency/disaster recovery plan with a corporate emergency/disaster recovery plan.

731. **In paragraph 161**, UNOPS agreed with the Board's recommendation that it initiate, in conjunction with UNDP and UNFPA, an independent comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in internal controls of the Atlas system as soon as possible.

732. See the response provided to the Board's recommendation contained in paragraph 128 (see paras. 715-718 above).

733. **In paragraphs 18 (i) and 165**, UNOPS agreed with the Board's recommendation that it compile, approve and disseminate to all staff an overall internal control framework that covers all modules of the Atlas system as a matter of priority.

734. See the response provided to the Board's recommendation contained in paragraph 128 (see paras. 715-718 above).

735. **In paragraph 169**, UNOPS agreed with the Board's recommendation that, considering that it was responsible for its own general ledger, in conjunction with UNDP, it intensify its efforts to resolve the limitations of the general ledger module as a matter of priority.

736. Initiative No. 2, Atlas stabilization and optimization, includes the installation and proper configuration of an adequately functioning general ledger. UNOPS will continue to work in collaboration with UNDP, the lead implementation partner, to make the general ledger module a priority.

737. **In paragraph 173**, UNOPS agreed with the Board's recommendation that it: (a) include appropriate terms and conditions addressing bank reconciliations in the service level agreement with UNDP for treasury services; and (b) monitor closely cash transactions processed by UNDP, on its behalf, until the reconciliations are in place.

738. UNOPS management will continue to work in collaboration with the UNDP treasury to ensure that all bank reconciliations are performed and other critical internal controls are in place.

739. **In paragraph 177**, UNOPS agreed with the Board's recommendation that it take immediate steps, in conjunction with UNDP, to rectify the weakness in the Atlas system that allowed changes to payee details after the payment voucher had been approved.

740. See the response provided to the Board's recommendation contained in paragraph 128 (see paras 715-178 above).

741. **In paragraph 179**, UNOPS agreed with the Board's recommendation that it ensure, in conjunction with UNDP, that payments split between two or more budget holders were approved by both budget holders before payment took place.

742. See the response provided to the Board's recommendation contained in paragraph 128 (see paras 715-718 above).

743. **In paragraph 182**, UNOPS agreed with the Board's recommendation that it institute alternate controls until the correct budgets were reflected in the Atlas system to manage project cost.

744. Initiative No. 6, proposal tracking, project acceptance, and project set up, focuses on the proper use and leverage of the Atlas system's rich project functionality. Once the Atlas system is functioning as intended and the data cleaned, it is imperative that ongoing transactions be properly processed. The establishment of a centralized project office is a critical first step in ensuring data integrity.

745. **In paragraph 185**, UNOPS agreed with the Board's recommendation that it expedite, in conjunction with UNDP, its efforts to develop and put into operation all exception and monitoring reports.

746. UNOPS management strongly believes in reporting on exceptions as a key element of internal control. To the extent that time and resources allow, UNOPS will work with UNDP to create and develop reports on exceptions.

747. **In paragraph 188**, UNOPS agreed with the Board's recommendation that it, reconsider, in conjunction with UNDP, activating the audit trail function, taking into account the beneficial effect it will have on the operations of the Atlas system.

748. See the response provided to the Board's recommendation contained in paragraph 128 (see paras. 715-718 above).

749. **In paragraph 190**, UNOPS agreed with the Board's recommendation that it implement, in conjunction with UNDP, firewall security at all country offices as per the recommended minimum standards for desktop and network environments.

750. The activities to be undertaken to implement this will include: (a) mapping and analysis of current infrastructure and software applications; (b) establishing procedures and guidelines for firewall security; (c) purchasing, installing, configuring and testing equipment; and (d) providing training in operating and monitoring of security platform.

751. **In paragraph 193**, UNOPS agreed with the Board's recommendation that it urgently allocate resources, in conjunction with UNDP, to resolve the shortcomings identified with the Atlas system as soon as possible, especially those classified as critical.

752. Further to the response to paragraph 128 of the Board's report, UNOPS management is keenly aware of the shortcomings of the Atlas system and will continue to devote the number and skill set of resources as available given the organization's ongoing operating needs and other priorities.

753. **In paragraph 201**, UNOPS agreed with the Board's recommendation that it comply strictly with its procurement directives on engaging consultants.

754. UNOPS will issue an administrative circular on the issue raised in the Board's recommendation and it will also establish training agenda for procurement procedures.

755. **In paragraphs 18 (k) and 204**, UNOPS agreed with the Board recommendation that it perform a cost-benefit analysis for the recommendations made by the strategic advisory groups in order for the change management initiatives to be measured against a substantiated budget and to track the value generated by the change management process.

756. In addition to the response provided to the Board's recommendation contained in paragraph 38 of its report (see para. 686 above), UNOPS management realized that some of its previously proposed "change management" initiatives were not strategically focused on the organization's highest risk areas as a result of the most recent planning and budgeting exercise (July 2004). The new turnaround initiatives include a preliminary business case. However, most of these initiatives are infrastructure projects. Infrastructure projects, rather than revenue-enhancing or cost reducing, are projects that typically focus on legal, regulatory, environmental or security compliance and the enablement of existing and future business (e.g., information technology systems, general ledgers, etc.).

757. **In paragraph 208**, UNOPS agreed with the Board's recommendation that it identify organizational as well as individual training requirements with the aim of developing a training plan, backed by an adequate amount of resources.

758. UNOPS will develop a training strategy, implementation of which should start in 2005. The training strategy will be aligned with the business strategy. The Division for Human Resources Management has maintained the same budget for training purposes for 2004 as compared with the previous year. A new performance management and development system has also been instituted and it will be accompanied by broad training for all staff.

759. **In paragraph 211**, UNOPS agreed with the Board's recommendation that it ensure that staff members sign the acceptance of appointment letter for all appointments of limited duration and that copies are kept in a central location for future reference.

760. UNOPS will issue an administrative circular further detailing implementation of the delegation of authority to issue appointments of limited duration.

761. **In paragraph 214**, UNOPS agreed with the Board's recommendation that it intensify its efforts, in conjunction with UNDP and UNFPA, to finalize the fraud prevention strategy and fraud policy statement.

762. It is expected that UNOPS will finalize a fraud policy by the second half of 2004.

763. **In paragraph 217**, UNOPS agreed with the Board's recommendation that it: (a) amend, in consultation with UNDP, the fraud prevention policy to include reference to UNOPS (or alternatively, a separate addendum should be prepared for formal approval by UNOPS); (b) make the draft policy available for comment within UNOPS prior to finalization; and (c) arrange for fraud investigations in areas where the risk is assessed to be high.

764. UNOPS will develop a fraud hotline protocol and plan, together with a fraud awareness training programme.

XIII. International Criminal Tribunal for Rwanda

765. The actions taken or to be taken by the International Criminal Tribunal for Rwanda to implement the recommendation of the Board of Auditors in its report for the financial period ended 31 December 2004[13] are set out below. The Registrar, the Office of the Chief Prosecutor, together with other officers at the Tribunal are responsible for the implementation of the recommendations.

766. **In paragraph 22 of its report**, the Board reiterated its previous recommendation and the Administration agreed that the Tribunal disclose non-expendable equipment as encouraged in paragraph 49 of the accounting standards and to disclose the value of non-expendable property pending write-off decisions in the notes to the financial statements, commencing in 2004.

767. The Tribunal is of the opinion that it has complied with paragraph 49 of the accounting standards and has disclosed the value of non-expendable property pending write-off decisions. Nevertheless, the recommendation is noted and the Finance Section and the General Service Support Section will ensure that the recommended details of disclosures and value of non-expendable property pending write-off decisions are submitted to United Nations Headquarters for inclusion in the year-end financial statements. The Tribunal shall also bring to the attention of the Accounts Division at Headquarters this particular audit recommendation so that

the required detailed information, which the Tribunal has regularly transmitted to that office is duly reflected in the financial statements.

768. **In paragraphs 11 (a) and 26**, the Board recommended that the Tribunal: (a) comply with the United Nations systems accounting standards by not netting accounts payable off against accounts receivable and vice versa; and (b) improve the financial application system to prevent the netting off of debit and credit amounts.

769. The Finance Section is currently conducting a comprehensive review of the receivable and payable accounts so as to take appropriate corrective action in compliance with the audit recommendation with regard to the netting off of the accounts payable against accounts receivable and vice versa. Of the 37 examples quoted in the audit recommendation, all debit/credit amounts have been corrected with the exception of four amounts. The Tribunal's review of the accounts receivable and payable is expected to be completed by the end of 2004.

770. As previously indicated by the Tribunal, the enhancement of the Sun System is administered at United Nations Headquarters. The Finance Section of the Tribunal has however consulted a system analyst of the Department of Peacekeeping Operations, United Nations Headquarters with regard to the possibility of preparing separate reports for debit and credit entries.

771. **In paragraphs 11 (b) and 30**, the Board recommended that the Tribunal, in conjunction with the United Nations Secretariat, review the funding mechanism and targets for end-of-service and post-retirement benefits liabilities.

772. The recommendation is currently under review.

773. **In paragraph 33**, the Board recommended that the Tribunal continue to improve and maintain adequate control over non-expendable equipment.

774. In compliance with the Board's recommendation, several steps were taken to implement the recommendation, including the training of various asset managers in early 2004 in the Field Asset Control System. Similar training was conducted at Kigali for the various asset managers. Effective June 2004, bar code labels are being assigned physically to all active non-expendable assets, replacing the old decal numbers, and such records are being updated in the Field Asset Control System to reflect the change and the Property Control and Inventory Unit is in the process of conducting physical verification of non-expendable assets and updating of such records in the System.

775. **In paragraphs 11 (c) and 46**, the Tribunal agreed with the Board's recommendation that it: (a) continue to monitor progress in terms of the completion strategy and take all necessary steps to complete its planned activities on time; (b) prepare a completion strategy for the Appeals Chamber in consultation with the International Tribunal for the Former Yugoslavia; and (c) include in its completion strategy a process to obtain donor support for the purpose of addressing factors that might limit the ability of the Tribunal to hand cases over to national judicial systems. The Tribunal could also seek assistance from the United Nations system to create partnerships for obtaining donor support in order to implement judicial reforms in Member States.

776. The Tribunal concurs with the Board's recommendation and will make every effort to have it implemented.

777. **In paragraphs 11 (d) and 50**, the Board recommended that the Tribunal intensify its efforts to gain the cooperation of States to arrest all indictees at large and seek the assistance of the international community to place additional pressure on uncooperative States.

778. The Tribunal has already commenced the implementation of this recommendation. Most of the fugitive indictees are in African States. The Prosecutor has spoken to the African Group of Ambassadors to the United Nations, the leadership of the African Union and officials of a number of African States to gain such cooperation. The Prosecutor will continue to seek audience with heads of States in which some of the indicated fugitives are known to be. The Tribunal believes that the preferred action is to speak to various heads of States and foreign ministers on the issue and explain to them the role and importance of the Tribunal in fighting impunity and highlighting the role that these countries can play in the realization of that ideal. The Registry, which follows up on the orders of the Chambers, has responsibility for taking custody of arrestees, transferring them and holding them for trial. Following further discussions and consultations on the issue with the various parties outlined above, the Tribunal will report to the Security Council in 2005.

779. **In paragraphs 11 (e) and 61**, the Board recommended that the Tribunal monitor and evaluate the impact of the new decisions taken regarding improvements in the legal aid system.

780. This is being done on a continuous basis. However, the strict management and control of the legal aid system has led to strikes by the Defence Counsel. And, of late, Defence Counsel have threatened not to come for scheduled hearings if the Tribunal does not relax the implementation of General Assembly resolutions 57/289 of 20 December 2002 and 58/253 of 23 December 2003.

781. **In paragraphs 11 (f) and 64**, the Board recommended that the Tribunal continue its efforts to verify the financial position of the accused through improved communication with Member States.

782. The Financial Investigator is in place and in-house investigations, which are ongoing, are in progress. Missions are being planned for October 2004, subject to availability of funds, to Rwanda and other places where the family of the accused are alleged to have assets. In this regard, the active cooperation of Member States is crucial to the successful completion of investigations.

783. **In paragraph 70**, the Board recommended that the Tribunal: (a) continue to monitor the submission of invoices by defence counsel using the new software; and (b) evaluate the lump-sum system of legal aid at the International Tribunal for the Former Yugoslavia in order to ascertain whether such a system could assist in limiting the increasing cost of legal aid.

784. The database needed for this function is being updated for this purpose. The lump-sum system of payment under the legal aid programme has been evaluated by both Tribunals. From discussions held with the International Tribunal for the Former Yugoslavia, there are still problems with the implementation of the lump-sum system during the pre-trial stage, which are yet to be resolved. The International Criminal Tribunal for Rwanda is waiting to see how these problems will be resolved by the International Tribunal for the Former Yugoslavia before making a decision.

785. **In paragraph 76**, the Board recommended that the Tribunal: (a) monitor the costs incurred in securing the attendance of witnesses; and (b) continue to recover costs from defence counsel in line with the Registrar's directives.

786. With respect to the monitoring of the costs incurred in securing the attendance of witnesses, the Tribunal keeps a record of all expenditures and upon completion of each case, makes a compilation of information with a clear indication of all costs incurred. In addition, Heads of Unit of the Witness and Victims Support Section have been requested to provide relevant data related to witnesses-related missions undertaken and other costs, for a monthly analytical report to be submitted to the Deputy Registrar.

787. Regarding the second part of the recommendation, which indicated that the Witness and Victims Support Section should continue to recover costs from defence counsel in line with the Registrar's directives, it is worth noting that it will be difficult to come up with a timetable on the implementation of this recommendation since the Section cannot predict the behaviour of defence counsel in requesting for production of their witnesses, or the exact number of witnesses to be returned to their country of residence without testifying. But if a defence witness is brought to Arusha without testifying, the Section will notify the Defence Counsel and Detention Management Section and request that defence counsel support the costs and associated costs for the movement of the witness. The action has already been envisaged by the Registrar in his directive on costs recovery and the Witness and Victims Support Section complies with the said directive.

788. **In paragraph 82**, the Board encouraged the Tribunal to continue its efforts to fill reviser posts that have been advertised.

789. The Tribunal will take all necessary steps to fill all advertised posts.

790. **In paragraphs 11 (g) and 85**, the Board recommended the Tribunal ensure that the Language Services Section and the Office of the Prosecutor continue to work together to monitor the nature of requests so as to prevent the translation of documents that have no probative value.

791. The Office of the Prosecutor and the Language Services Section will meet for this purpose at two-week intervals. The Office will scan the list of documents provided and identify the documents that are not of probative value.

792. **In paragraph 93**, the Board recommended that the Tribunal consider ways to improve the efficiency and effectiveness of court management, including evaluating new technology on the basis of cost-benefit analyses.

793. Improvement in the efficiency and effectiveness of the court reporting process is a permanent objective on management's agenda. There is ample evidence to suggest that the improved measures taken over the years, including the introduction of new technology, bear fruits. It is therefore not only fair but accurate to recommend "further" improvements and not simply improvements. Furthermore, while the Board's recommendation speaks of court "management", it should be noted that the scope of the Board's audit was limited to court reporting, which is only one aspect of the various operations undertaken by the section. After reviewing the costs and benefits of real-time and deferred real-time, in the budget proposal for 2002-2003, the best option was for the implementation of the deferred real-time, which is less costly and was expected to yield results that could contribute to

furthering the completion strategy adopted by the Tribunal. However, the additional resources needed to implement the deferred real-time are yet to be accorded to the Tribunal.

794. **In paragraph 95**, the Board recommended that the Tribunal: (a) in conjunction with the Office of Internal Oversight Services, set up an implementation plan to address the recommendations of the Office, including target dates; and (b) monitor progress with regard to the implementation of the recommendations.

795. The Tribunal is currently in discussion with the Office of Internal Oversight Services in this regard. An implementation plan is expected to be set up by September 2004 and it will be monitored through to June 2005.

796. **In paragraph 100**, the Tribunal agreed with the Board's recommendation that it: (a) continue to make progress with regard to the implementation of results-based budgeting by introducing more stringent central monitoring mechanisms; and (b) further develop and update the workload indicators to align with results-based budgeting and the exit/completion strategy.

797. It should be noted that this is the first year of implementing results-based budgeting, and therefore there are many lessons to be learnt. The Tribunal, for its part, has already undertaken various initiatives with the view to improving performance and the delivery of judicial and administrative support services. The following constitute the overall plan of implementation and maintenance of results-based budgeting:

(a) The streamlining of operations and processes, which commenced in 2003 and is ongoing;

(b) Joint consultation and collaboration with the International Tribunal for the Former Yugoslavia on common issues that include workload/performance indicators and their linkage to exit/completion strategy (addressed by the International Criminal Tribunal for Rwanda and the International Tribunal for the Former Yugoslavia administrations in a meeting held from 13 to 16 April 2004 for further discussion by the various organs of the Tribunals);

(c) Implementation of the Integrated Management Information System at the International Criminal Tribunal for Rwanda (for which discussions and negotiation with United Nations Headquarters are ongoing);

(d) Coordination and consultation (information-sharing) with the Programme Planning and Budget Division on lessons learnt from the implementation of results-based budgeting, and follow-up training programme;

(e) Development or enhancement/modification of benchmarks and standards to measure performance;

(f) Development and installation of a tracking system.

798. **In paragraphs 11 (b) and 105**, the Board recommended that the Tribunal: (a) effectively monitor and track requirements, solicitations of bids or proposals and the awarding of contracts in order to allow both the supplier and the Tribunal sufficient time to finalize, conclude and sign both contracts and their extensions effectively and in a timely manner; (b) inform suppliers that it cannot accept and would not be liable for any goods or services delivered without a signed procurement contract in

place, and (c) formalize the agreement with the Tanzanian Police and Prison Services, in compliance with United Nations directives.

799. The Tribunal concurs with the above recommendation. With regard to (c), upon review of the draft agreement, the Office of Legal Affairs instructed the Tribunal to incorporate additional provisions and renegotiate some aspects of the agreement. That was done and the Government was so informed of the recommended changes, which requests that the payment of US$ 10 allowance be paid to the Government rather than to the prison officers directly, which is the current practice. A reply is awaited from the Government. If the Government agrees, the agreement will be amended to incorporate the final position agreed to both by the Tribunal and the Government. If the Government insists that the current practice of paying the prison officers directly continue, then this position will be forwarded to the Office of Legal Affairs for further advice.

800. **In paragraph 108**, the Board recommended that the Tribunal evaluate the reasons for the excessive lead times at the various stages of the procurement cycle and take measures to decrease them to a reasonable level.

801. In principle, the Tribunal agrees with the recommendation and it is focusing on the efficiency of the section with regard to lead times. However the lead times represented in table 5 of the Board's report, where the lead time is shown from when the requisition is entered and up to when the invoice is presented, cannot in any reasonable way represent the lead time controlled by the Procurement Section as many other entities are involved and responsible. The lead time for a procurement action should in the Tribunal's view be from when a requisition is certified and forwarded to the Procurement Section and up to the point when the purchase order is issued, and then up to the point when the goods are received from the supplier.

802. **In paragraph 110**, the Board recommended that the Tribunal approve purchase orders before goods and/or services are ordered and received from suppliers, in compliance with rule 105.7 of the Financial Regulations and Rules of the United Nations.

803. The Tribunal concurs fully with the recommendation. However, as previously expressed in response to this recommendation, there are circumstances during periods of severe budgetary constraints when the Tribunal has been allocated funds from United Nations Headquarters on a monthly basis only. This makes it impossible at times to obligate funds for such services as food, fuel, safe houses etc. If such vital services are stopped owing to a delay in budget allocations, the Tribunal would have to stop its operations for the same period. With regard to the invoices for the purchase orders referred to in table 6, these were not paid before the funds were obligated. The delays in payments were explained to the vendors.

804. **In paragraph 114**, the Board reiterated its previous recommendation that the Tribunal: (a) conduct reference checks on all new eligible candidates; and (b) maintain accurate and complete records of such reference checks.

805. The Tribunal agrees with the Board's recommendation. However, the full implementation of this recommendation is an ongoing exercise.

806. **In paragraph 122**, the Tribunal agreed with the Board's recommendation that it continue its efforts to reduce the vacancy rates, with special emphasis on the Office of the Prosecutor.

807. Efforts to reduce the vacancy rate are and should be ongoing without having any particular time breaks. Any timetable for specific actions should be understood in this context. It should be noted that recruitment is currently frozen owing to non-payment of assessments by some Member States. The freeze has had a negative impact on efforts to reduce vacancy rates. Nevertheless, the Tribunal will review the vacancy rate on a regular basis. In that regard, the rosters of qualified candidates will continue to be built in order to accelerate the process of filling vacant posts. Vacancy announcements will be issued for all the non-rostered posts that fall vacant.

808. **In paragraph 126**, the Board recommended that the Tribunal expedite its recruitment of appropriate information and communication technology personnel.

809. This recommendation has been fully implemented.

810. **In paragraph 129**, the Tribunal agreed with the Board's recommendation that it develop, approve and update on a continuous basis an information and communication technology strategic plan to provide for changing circumstances in respect of the requirements of the Tribunal.

811. As noted by the Auditors, the strategic plan needs to be developed to provide for changing circumstances. Changes in circumstances will be reflected in the plan as they occur, and on a periodic basis.

812. **In paragraph 131**, the Board recommended that the Tribunal: (a) expedite the process of approving the disaster recovery plan; (b) make staff fully aware of the contents of the plan and monitor full compliance; and (c) retain a copy of the plan off-site and incorporate it into the change management arrangements to ensure that the plan is routinely updated when hardware and software changes occur.

813. A disaster recovery plan has been developed. The plan will be presented to the Information Technology Steering Committee for approval. It will then be presented to management for formal adoption by December 2004.

814. **In paragraph 134**, the Board recommended that the Tribunal develop and approve a fraud-prevention strategy in coordination with the administrations of the United Nations and the other funds and programmes.

815. The Administration agrees with the Board's recommendation. However, it should be noted that the Administration gives high priority to the issues of fraud and corruption and several mechanisms for addressing such situations are embodied in the Financial Regulations and Rules of the Organization, as well as in established procedures, all geared towards ensuring that there are adequate internal controls to minimize such occurrences.

XIV. International Tribunal for the Former Yugoslavia

816. The actions taken or to be taken by the International Tribunal for the Former Yugoslavia to implement the recommendation of the Board of Auditors in its report for the financial period ended 31 December 2003[14] are set out below. In most of the cases the responsibility for implementing the recommendations of the Board lies with the Chief Administrative Officer and the Tribunal's Registrar in consultation with the Department of Management at United Nations Headquarters.

817. **In paragraphs 10 (a) and 22 of its report**, the Board recommended and the Tribunal agreed that the Administration of the Tribunal should review procedures in place on deferred charges to ensure the completeness of the disclosure.

818. In a previous audit, the Board had recommended that the Tribunal rely on Headquarters monitoring of deferred charges in order to eliminate duplication. However, based on the events of the past year, the Tribunal now concurs with the recommendation of the Board that both Tribunal and Headquarters liaise to arrive at the proper totals.

819. **In paragraph 26**, the board expressed concern about the level of reserves and the ability of the Tribunal to cover its liabilities for end-of-service and post-retirement benefits under the present situation; and **in paragraphs 10 (b) and 27**, the Tribunal agreed with the Board's recommendation that the Administration should liaise with United Nations Headquarters in order to account for the liability related to judges' pensions and to plan for the transfer of pension commitments to a permanent entity before the termination of the Tribunal.

820. The Tribunal has discussed with the Controller of the United Nations the issues regarding liabilities that will exceed the mandate of the Tribunal. The Tribunal will work closely with the Office of Programme Planning, Budget and Accounts on a strategy to resolve the matter.

821. **In paragraphs 10 (c) and 35**, the Tribunal agreed with the Board's recommendation that it further intensify its efforts to gain the cooperation of all concerned Member States and seek the assistance of the international community to place additional pressure on uncooperative Member States.

822. The Tribunal agrees with the recommendation. However the issues depicted in paragraph 34 of the report remain as obstacles for the Tribunal to meet its stated completion strategy dates (particularly with regard to the illnesses of the accused and the number of guilty pleas that might come forward). In each of the instances, the resolution remains beyond the control of the Tribunal, although with respect to the cooperation of Member States, the Tribunal continues to put pressure on Member States via the press and in coordination with other Member States that have influence over those Member States that are being uncooperative.

823. **In paragraph 42**, while commending the Tribunal for setting and monitoring clear objectives and for achieving progress in their implementation, the Board remains concerned that the 2010 deadline set by the completion strategy might not be reached, considering the present risk factors; the Tribunal agreed with that concern.

824. The Tribunal is fully cognizant of factors, such as the current recruitment freeze and financial situation, that could have an impact on the Tribunal's ability to continue with the full court schedule. In addition, there are still several high-level indictees who have not been captured/detained. If their arrests are postponed for a prolonged period, this fact would also jeopardize the completion strategy dates as currently mandated.

825. **In paragraph 53**, the Board encouraged the Tribunal in its action to reduce further the need for costly official translations.

826. Official translations are often a necessity in a formal court setting and cannot be avoided. The Board recognized the two levels of translation and the efforts made by the Tribunal to reduce, where appropriate, duplication.

827. **In paragraphs 10 (d) and 58**, the Tribunal agreed with the Board's recommendations that it: (a) finalize the annex to the memorandum of understanding setting out the services to be shared and invoiced within the United Nations House in Sarajevo; (b) endeavour to have the building's management transferred to another entity before the Tribunal closes its Sarajevo office; and (c) continue to liaise with United Nations Headquarters and other international entities to improve the building's occupancy rate.

828. With respect to the finalization of the annex to the memorandum of understanding, the Tribunal completed the document in March 2004. With respect to having the building's management transferred to another United Nations agency and the improvement of the building's occupancy rate, the Tribunal contacted the Under-Secretary-General for Management in June of 2004 with regard to once again asking other United Nations offices as to their interest in occupying this space. The Department of Management formally sent out letters offering the building as a potential accommodation arrangement and asked for expressions of interest. As the United Nation's agreement with the University of Sarajevo will expire in 2008, it is becoming less likely, owing to financial feasibility, that another agency will find the option as viable, unless it only has a short duration mandate within the country. Any such move into the premises would have to factor in the cost to relocate in 2008. The United Nations Secretariat may in fact decide that when the Tribunal closes its offices, it will then allow the agreement with the University to expire. As the University has expressed to the Tribunal its interest in the building, it is unlikely that it would consider allowing the building management to transfer to a non-United Nations entity once the Tribunal departs.

829. **In paragraph 60**, the Tribunal agreed with the Board's recommendation that it consider sharing software for standard data-processing applications on an inter-agency basis.

830. The Tribunal is already accessing and reviewing e-assets.

831. **In paragraph 62**, the Tribunal agreed with the Board's recommendation that it explore with the United Nations Secretariat the possibility of extending the medical standards for staff members to candidates for judgeship, which is a non-United Nations staff position.

832. The Tribunal will raise this recommendation with the Office of Human Resources Management, the Office of Legal Affairs and the Office of the Secretary-General.

833. **In paragraph 66**, the Board recommended that the Tribunal take further steps to comply with strict overtime rules.

834. The Tribunal is working with the resident auditors of the Office of Internal Oversight Services to refine further the overtime justification and use methodology in several areas of the Tribunal.

835. **In paragraph 69**, the Tribunal agreed with the Board's recommendation that it reinforce its monitoring of training activities.

836. The Tribunal has a budget request before the General Assembly to redeploy a post to the human resources section for the purpose of strengthening the training monitoring capacity.

837. **In paragraph 74**, while commending the Tribunal for action taken on external corruption and fraud risks, the Board recommended that it develop a plan against the risk of internal corruption and fraud, including fraud-awareness initiatives, furthering its recent coordination with the United Nations Administration in order to obtain the benefit of best practices.

838. Following the preliminary discussions with the Board, the Tribunal contacted the Department of Management to determine what resources were available with respect to the sharing of best practices regarding external corruption and fraud. The Tribunal will continue to work with the Department and will adopt global programmes, which can be accessed and/or rolled-out to the Tribunal.

Notes:

[1] *Official Records of the General Assembly, Fifty-ninth Session, Supplement No. 5* (A/59/5), Vol. III, chap. II.

[2] Ibid., *Supplement No. 5* (A/59/5), Vol. IV, chap. II.

[3] Ibid., *Supplement No. 5A* (A/59/5/Add.1), chap. II.

[4] Ibid., *Supplement No. 5B* (A/59/5/Add.2), chap. II.

[5] Ibid., *Supplement No. 5C* (A/59/5/Add.3), chap. II.

[6] Ibid., *Supplement No. 5D* (A/59/5/Add.4), chap. II.

[7] Ibid., *Supplement No. 5E* (A/59/5/Add.5), chap. II.

[8] Ibid., *Supplement No. 5F* (A/59/5/Add.6), chap. II.

[9] Ibid., *Supplement No. 5G* (A/59/5/Add.7), chap. II.

[10] Ibid., *Supplement No. 5H* (A/59/5/Add.8), chap. II.

[11] Ibid., *Supplement No. 5I* (A/59/5/Add.9), chap. II.

[12] Ibid., *Supplement No. 5J* (A/59/5/Add.10), chap. II.

[13] Ibid., *Supplement No. 5K* (A/59/5/Add.11), chap. II.

[14] Ibid., *Supplement No. 5L* (A/50/5/Add.12), chap. II.